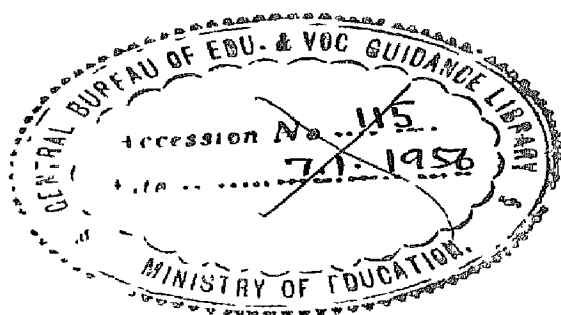


INTERNATIONAL LABOUR OFFICE

# ACTION AGAINST UNEMPLOYMENT



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## INTRODUCTION

Full employment is now universally accepted as one of the most important of economic objectives. The hardship which millions of workers and their families suffered through mass unemployment in the 1930's is vividly remembered, and action to prevent any recurrence of such unemployment has become a first principle of public policy

It is natural, therefore, that any increase in unemployment should give rise to serious concern. One of the first places in which that concern is bound to be reflected is the International Labour Conference, where sit representatives of Governments, employers and workers who are directly and immediately affected by unemployment and who are in a key position to take resourceful and energetic action against it

When the Conference met in June and July 1949, it was keenly conscious of the increase in unemployment which had appeared in a number of countries in the latter part of 1948 and the early months of 1949, and of the apprehensions to which this increase had given rise. Before it adjourned, the Conference adopted a Resolution requesting the Governing Body of the International Labour Office (1) to consider instructing the Director-General to prepare, without delay, a comprehensive report on unemployment; (2) to consider the desirability of placing on the agenda of an early session of the Conference the question of unemployment, with a view to achieving fuller and more effective use of manpower, both within each nation and internationally, and (3) to instruct the International Labour Office, in connection with its manpower programme, to continue to follow questions of employment and unemployment with the closest attention and to co-operate with the United Nations and the specialised agencies directly concerned in the reporting and analysis of employment and unemployment and in the formulation of recommendations to combat unemployment.<sup>1</sup>

At its 110th Session at Mysore in January 1950 the Governing Body conveyed to the International Labour Office the instructions

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<sup>1</sup>The full text of the Resolution is reproduced in Appendix I below,  
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suggested by the Conference and directed that the report called for by the Conference should be brought to its notice at its 33rd Session in June 1950

The present report is the outcome of those decisions. It consists of two parts. The first opens with a discussion, in chapter I, of the main causes and types of unemployment experienced since the war. Chapter II contains an analysis of the underlying economic factors in certain countries, which is designed to clarify the nature and significance of recent trends and to illustrate the main types of unemployment which exist in substantial volume at the present time

The second part of the report is concerned with the action that is being or might be taken to prevent, relieve and reduce unemployment. Chapter III deals with measures to alleviate the effects of unemployment by replacing at least part of the loss of wages suffered by the workers concerned. Chapter IV surveys the measures that Governments have taken or plan to take for the purpose of preventing general unemployment arising from a deficiency in aggregate demand—the type of unemployment that developed on so disastrous a scale in the 1930's. The next two chapters deal with action against unemployment that is localised in particular industries, occupations or places. Chapter V, on improving the organisation of the employment market, discusses what can be done, through employment services, vocational guidance and counselling, training and related measures, to assist workers in finding, qualifying themselves for and moving to available jobs. Chapter VI deals with the case of depressed areas, where it may be equally important to bring jobs to workers, it also considers the possibilities of industrial diversification as a means of reducing the vulnerability of particular areas to concentrated unemployment. Chapter VII analyses the special employment problems of the less-developed countries, in particular the problem of underemployment, and discusses the types of action that are being taken or would seem appropriate to deal with them. Chapter VIII surveys briefly the measures that Governments have taken or plan to take in the field of international trade and finance, and the action against unemployment taken or planned by the various international organisations. Chapter IX summarises the conclusions and policy recommendations of the report.

The Resolution of the International Labour Conference which led to the preparation of this report is reproduced in Appendix I, Appendix II provides a comprehensive survey of unemployment

in countries for which statistics are available, and Appendix III discusses briefly the problems arising in any attempt to compare unemployment statistics of different countries and the limitations to be borne in mind when using them

In assembling material for chapters VII and VIII, the International Labour Office was assisted by the United Nations Department of Economic Affairs, and in preparing chapters IV and VIII it has drawn extensively on the replies of Governments to the recent United Nations questionnaire concerning their plans and policies for giving full employment and economic stability <sup>1</sup>, as well as on other sources

The report on national and international measures for full employment prepared by the group of experts appointed by the Secretary-General of the United Nations was published after the International Labour Office's report on action against unemployment was first drafted. Many problems pertaining to the field covered by chapters IV and VIII of the Office report were thoroughly examined by the experts appointed by the United Nations, and were the subject of extensive recommendations by them. The discussions arising out of the experts' report were still going on when the Office report went to press. So far as possible, overlapping between the two publications has been reduced to a minimum by references to appropriate sections of the experts' report. It is, nonetheless, inevitable that some overlapping should remain. Members of the International Labour Organisation are vitally interested in the whole problem of unemployment, and it would not be desirable to omit all reference to questions dealt with in the experts' report.

In the present report, attention is focused primarily on measures to abolish unemployment in its various forms. It should not be overlooked, however, that full employment is likely to intensify certain economic problems, notably how to maintain flexibility and efficiency in production and how to avoid inflation. Difficult and controversial issues, both in economic analysis and in human relationships, are encountered in dealing with these problems, particularly as they relate to wages. First of all, it is necessary

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<sup>1</sup> Cf. UNITED NATIONS, DEPARTMENT OF ECONOMIC AFFAIRS *Maintenance of Full Employment. An Analysis of Full Employment Policies of Governments and Specialised Agencies* (Lake Success, 1949), and United Nations mimeographed documents E/1111 and Addenda 1 to 7. A shorter analysis of the Governments' replies was given in "National Action to Promote Full Employment", *International Labour Review*, Vol. LIX, No. 6, June 1949, pp. 684-698.

to understand the part played by wages in the determination of the level of employment Secondly, it is necessary to determine what wage levels and what changes in wage rates are most conducive to the maintenance of full employment Thirdly, there is the question of how to facilitate economic and social relationships among employers, workers and other groups in the economy, so as to achieve continuing full employment and at the same time to maintain flexibility and efficiency in production and to avoid inflation. These problems of full employment offer a most important field for further analysis Some studies have already been undertaken in this field by the International Labour Office <sup>1</sup> Further investigations are in progress.

While this report is intended in the first place for the International Labour Conference, it is hoped that the information it contains and the suggestions it puts forward will be of value to all who are concerned with the need for continuing vigilance and action not merely to combat unemployment but also to promote that fuller and more effective use of manpower which is the essential foundation for higher living standards

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<sup>1</sup> See, for example, International Labour Conference, 31st Session, San Francisco, 1948, Report VI (a): *Wages*. (a) *General Report* (I L O , Geneva, 1948), especially chapter VI.

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## PART I

# THE EXTENT AND CHARACTER OF PRESENT UNEMPLOYMENT

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## CHAPTER I

### UNEMPLOYMENT SINCE THE WAR

Steadily rising living standards and greater equality of incomes are fundamental economic goals. The maintenance of full employment has rightly come to be regarded as the first and biggest step that Governments can take towards achieving these goals. It is the field in which, until recent years, the most obvious economic losses have been incurred. While unemployment throughout the world was at its highest known levels during the early 1930's, at no time in the inter-war period was it adequately controlled in the industrially developed countries.

Even during the years of relatively high business prosperity of the later 1920's, there was substantial unemployment in many countries. In 1929 when pre-war world unemployment was at a minimum, more than 8 per cent unemployment was recorded in Australia, Austria, Denmark, Germany, Norway, Sweden and the United Kingdom. In other countries, including Belgium, Canada, Czechoslovakia, France, Japan, Poland, Switzerland and the United States, unemployment was not a serious problem. In all these countries, however, the levels of employment which were maintained in the 1920's proved highly unstable, and a rapid decline appeared soon after the financial reverses of 1929.

At the depth of the great depression of the early 1930's, only a few countries reported less than 20 per cent of wage and salary earners unemployed, and in several cases unemployment exceeded 30 per cent. But even during the years 1935-1939, unemployment was generally much higher than in the period 1925-1929. Recovery from the great depression was slow, and a set-back developed in 1937-1938. Prior to the outbreak of war in 1939 the index of world unemployment stood at approximately double the 1929 level. Improvements in the recording of unemployment in various countries may account for some part of the increased proportions of workers recorded as unemployed compared with 1929, yet it is significant that only in Germany and Japan, whose economies were geared for war, had any significant reduction taken place.<sup>1</sup>

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<sup>1</sup> Cf. LEAGUE OF NATIONS *World Economic Survey, 1938-1939* (Geneva, 1939)

This widespread unemployment in the inter-war period was not only the cause of untold misery for unemployed workers and their families, it also prevented any substantial progress towards economic and social objectives. Measures to increase productivity, for instance, are of little significance when large numbers of workers are unemployed and therefore produce nothing. Similarly, efforts to ensure adequate wages and to protect the rights of organised workers are less likely to succeed in periods when, as a result of large pools of unemployed workers, there is intensive competition in the employment market. The solution of the problem of unemployment is therefore the first and most important step to be taken in developing a progressive economy. However, it is important that policies designed to maintain full employment should also contribute to, or at least not hinder, the realisation of other fundamental economic aims.

The unemployment of the 1930's was caused predominantly by a chronic inadequacy of demand for goods and services. Since the end of the second world war, this kind of unemployment has not reappeared on a world-wide scale. Governments, trade unions, employers and all responsible groups in society are insistent that such mass unemployment of long duration should never reappear. Fortunately, understanding and experience of the measures necessary to combat unemployment, though still imperfect, have vastly increased during the last 15 years.

While the problem of unemployment is much less serious in the world today than it was before the war, it is far from being solved. The unemployment that has been experienced in recent years is due to a number of causes which differ widely in different countries. Because action against one kind of unemployment may be useless or even harmful if applied to another kind, it is necessary to distinguish the main types of unemployment in order to decide what kind of action is needed for each.

Table I shows that the level of unemployment in many industrialised countries is less than 4 or 5 per cent. Such levels do not indicate that the problem is serious. In fact, when unemployment is less than 3 to 5 per cent it may occur simultaneously with labour shortages in certain skills, as was the case in certain countries, including Czechoslovakia, France, Poland and the United Kingdom, after the end of the second world war.

Where unemployment is low, it is often to a large extent caused by workers moving from old jobs to new jobs while the level of demand remains high. Whereas general unemployment arising



TABLE 1. UNEMPLOYMENT PERCENTAGES DURING CERTAIN YEARS, 1929-1949

Type of statistics <sup>1</sup>	Country	Percentage of unemployment <sup>2</sup>						
		1929	1932	1937	1938	1948	1949 (av)	1949 (Sept)
A	Australia	11.1	20.0	9.3	8.7	0.9	1.9	0.8 <sup>3</sup>
B-E	Austria	12.3	26.1	20.4	15.3 <sup>4</sup>	2.0 <sup>4</sup>	—	3.5 <sup>4</sup>
B	Belgium	—	—	—	—	—	—	—
B	Old series	1.9	23.5	13.1	17.0	—	—	—
B	New series	—	—	—	—	6.4	11.7	11.4
F	Canada	—	—	—	—	—	—	—
F	Old series	4.2	26.0	12.5	15.1	—	—	—
C	New series <sup>5</sup> (per cent of civilian labour force)	—	—	—	—	2.1	2.7	2.7 <sup>5</sup>
D	Czechoslovakia	2.2	13.5	8.8	9.1	—	—	—
D	Denmark	15.5	31.7	21.9	21.4	8.7	9.6	6.2
F	France	—	—	—	8.0 <sup>7</sup>	—	—	(1.3) <sup>4</sup>
E	Germany	—	—	—	—	—	—	—
	Total	0.3	30.1	4.0	2.1	—	—	—
	Federal Area	—	—	—	—	4.3	9.0	8.8
B	Ireland	—	—	—	15.0	0.4	9.0	7.2
E-F	Italy	—	—	—	—	—	—	—
	Per cent of labour force <sup>6</sup>	—	—	—	—	—	—	(8.0) <sup>8</sup>
	Per cent of wage and salary earners <sup>8</sup>	—	—	—	—	—	—	(14-15) <sup>8</sup>
	Japan	—	—	—	—	—	—	—
E-F	Old series <sup>9</sup>	4.0	0.8	3.7	3.0	—	—	—
C	New series	—	—	—	—	1.9	—	2.7 <sup>5</sup>
B	Netherlands	5.0	25.3	20.9	25.0	—	—	—
E	Norway	—	—	—	—	1.3	1.0	0.0
E	Poland	4.9	11.8	14.0	12.7	—	—	—
A	Sweden	11.2	22.2	10.8	10.9	2.8	2.7	1.6
B	Switzerland	3.5	21.3	12.5	13.1	0.8	2.8	1.7
E-B	United Kingdom	10.4	22.1	10.0	12.0	1.6	1.6	1.4
C	U.S.A.	—	—	—	—	—	—	—
	Per cent of civilian labour force <sup>6</sup>	3.2	23.6	14.3	19.0	3.4	5.5	5.3
	Per cent of wage and salary earners	—	—	—	—	4.2	6.9	6.7

<sup>1</sup> Types of statistics: A, trade union statistics; B, unemployment insurance statistics; C, labour force sample surveys; D, trade union unemployment benefit funds statistics; E, employment exchange statistics; F, estimates. See note below and further discussion in Appendix III. Explanatory notes on the various unemployment series were published in *International Labour Review*, Vol. LVIII, No. 6, Dec. 1948. <sup>2</sup> Percentage of wage or wage and salary earners unless otherwise indicated. <sup>3</sup> Nov. <sup>4</sup> Approximate. <sup>5</sup> Aug. <sup>6</sup> Insignificant. <sup>7</sup> Estimate covering wholly and partially unemployed—report by Mr. DALADIER and Mr. RYNAUD, *Journal officiel*, 12 Nov. 1938. <sup>8</sup> Estimate for June 1949. Calculated in the International Labour Office by relating unemployed registered at labour exchanges to estimated numbers available for work. <sup>9</sup> From 1940 based on labour force sample survey, prior to 1940 estimated.

N.B. The sign (—) indicates that comparable figures are not available for that period.

Note. The statistics shown in the table are derived from various types of data, as indicated, and for some countries are more comprehensive in scope than in other cases. For example, a few countries include allowance for partial unemployment while others provide statistics referring only to the completely unemployed. In other cases, the figures do not relate to the whole employee group, but only to members of insurance schemes which exclude certain categories of workers, or to members of a group of trade unions. (See Appendix III—Comparability and limitations of unemployment statistics.)

Nevertheless, the series are sufficiently representative to reflect satisfactorily the trend in unemployment within individual countries. While they also give some indication of the relative severity of unemployment in the different countries, differences between the rates can be regarded as significant only where they are substantial.

from lack of effective demand is a total loss to a community, this sort of frictional unemployment may, if the employment service is adequately organised, result in workers being placed in jobs for which they are technically and temperamentally better suited than if they were arbitrarily and hastily assigned to new

positions, or were required to stay in their old jobs. The resulting improvement in the efficiency, productivity and morale of the labour force may more than compensate for the social cost of some degree of frictional unemployment, particularly if the worker receives unemployment benefits while he is out of work. Since the end of the second world war, frictional unemployment has probably been greater than usual. Although demand has generally been high, delays in reconverting industries from war to peace and changes in the pattern of consumer demand as additional supplies of consumer goods returned to the market have caused marked variations in the rates of expansion of different industries. At the same time some individual firms have been actually contracting.

Because the labour force in most countries has been increasing, the adjustment of the working population to changes in the employment market has been to a large extent achieved by the more rapidly expanding industries engaging a larger proportion of new workers, and other industries engaging a smaller proportion. But some movement of labour between industries was also required. In spite of the enormous extent of reconversion from war to peace, this adjustment was achieved in the industrially developed countries without great difficulty.

There is, in almost all countries, some unemployment caused by seasonal fluctuations either in consumer demand or in the conditions necessary for production. As will be pointed out in chapter VII, this is a serious problem in underdeveloped countries. In industrialised countries, however, the presence of industries with complementary seasonal fluctuations has to some extent alleviated the problem. It is not as severe as some other kinds of unemployment.

Table I shows, however, that in several countries of Europe and in the United States unemployment has been higher than 4 per cent. In these countries it is necessary to look for other causes of unemployment than frictional and seasonal factors. One of the most important of the other causes of unemployment since the end of the second world war has been what is known as the "inventory depression". Such a situation was of great importance in the United States in the first three quarters of 1949. "Inventory depressions" arise because business men build up excessively large accumulations of stocks and then have to sell them out. During this period of liquidation, production is likely to be curtailed and workers may be temporarily unemployed.

During the period of sharply rising prices which followed the war there was a strong incentive to accumulate inventories, partly because of the expectation that prices would rise further and partly as a precaution against the possible non-availability of goods that were rationed either by Governments or by informal arrangements with suppliers. In Germany, Italy and probably in other countries also, some unemployment has been caused by inventory liquidation.

In some industrialised countries, notably Belgium, levels of employment are largely dependent on international trade. Sometimes unemployment will result from a decline in exports in particular industries; in other instances competition in international trade may make necessary drastic measures to reduce costs by the introduction of labour-saving machinery and by the rationalisation of production. Changes in the pattern and volume of international trade have also threatened the stability of full employment in countries which produce plantation products such as rubber. The 1949 inventory recession in the United States probably had a greater impact on employment in some countries producing these products than it had on employment within the United States.

In Germany, Greece, Ireland, Israel, Italy, and the countries of the Middle East, the achievement of high levels of employment will require not only high levels of effective demand but also increased industrial capacity in which to employ workers. Unemployment in these countries at present results to a large extent from a shortage of sufficient capital to employ effectively all of the labour force at a socially acceptable minimum standard of living. In a more general sense, this is the problem of a large number of underdeveloped countries. In many of these countries there are vast numbers of workers who remain in subsistence agriculture, personal services, petty trade and other occupations which occupy only part of the time which they could spend in productive work. These workers are underemployed. Whether in any particular case a worker whose services, as a consequence of capital shortage, are less than fully used is counted as unemployed or underemployed depends on a variety of social and legal institutions. When family or other institutional ties are strong, workers may remain in underemployment in agriculture or other forms of family or group enterprise, even though they produce little. In so far as social insurance and unemployment relief systems provide greater benefits, there will be a greater tendency for workers to leave conditions of underemployment and to register as unemployed. There is

strong evidence that this is the case in Greece and Italy. In Germany a large influx of refugees has placed a severe strain on a stock of capital which had suffered severe damage during the war. Large-scale movements of population are clearly the main factor behind unemployment in Israel and the Arab States of the Middle East. It has also been of major importance in India, Pakistan, Japan and a number of other Far Eastern countries where post-war political developments have led to considerable shifts of population.

Appendix II provides a comprehensive survey of the extent of unemployment in all countries for which statistics are available. It inevitably omits a large part of the world, but in most of the countries omitted the problem of unemployment, in the usual sense of the word, is small. Most of them do have, however, a problem of underemployment, which can only be solved by a programme of economic development such as is described in chapter VII of this report. In addition to this general problem of shortage of capital, the different areas each have special problems.

Latin American countries are dependent to a large extent on external markets which, although satisfactory in recent years, have in the past often been extremely unstable. If export industries decline, it is difficult to find new jobs for the released workers, especially as they are usually specialised workers with higher incomes than the general level of the country. In this regard, the recent experiences of Chilean copper and Bolivian tin may be cited. Moreover, some industries, like the textile industry in Cuba, have been obliged to release workers as a result of the competition of North American products. In other instances the war made the transportation of the products of some regions difficult and consequently radically diminished the economic activity of the region, around 1943, for instance, the banana industry of Colombia was almost completely paralysed, leaving thousands of workers unemployed.

In general, however, during the last few years, Latin America has enjoyed circumstances which practically eliminated unemployment and which at the same time helped to diminish underemployment. With the end of the war, this intense economic activity did not diminish. In almost all cases the prices of basic export products were satisfactory in the principal foreign markets. Cuban sugar, Brazilian, Colombian and Central American coffee, Argentine wheat and meat and Chilean copper were all selling at good

prices. This resulted in prosperity for a substantial part of the community, and such prosperity was reflected throughout the whole. In these favourable circumstances, almost all countries undertook general programmes of development and industrialisation.

These programmes of development have been undertaken in these countries to increase production potential and thus to reduce underemployment. Some of the programmes were substantially helped by loans from the International Bank for Reconstruction and Development and the Export-Import Bank. Private foreign investments also played a part in such development. The exploitation of natural resources is a field in which such private-investments functions particularly well. Venezuela's oil production has increased considerably during the past 10 years, thus creating great financial prosperity for the whole country. Not all development plans, however, could be financed with foreign money. Substantial internal financing was also necessary, which in several instances meant deficit spending by the Government. Argentina's ambitious five-year plan was an example of such financing. This naturally meant further pressures on the manpower potential of the country.

In general, then, the aggregate demand for goods was sufficient to put pressure, sometimes of an inflationary character, upon production resources. For the time being, unemployment is not a problem for the Latin American countries. On the other hand, this economic prosperity depends heavily on the demand situation in foreign markets buying Latin American export products.

The centrally controlled economies of eastern Europe and the U.S.S.R. lay strong emphasis on full employment policy. The high rate of investment in these areas has prevented the development of any shortage of effective demand. Detailed planning of investment and production has been co-ordinated with manpower plans so that frictional unemployment has also been kept at a low level.<sup>1</sup>

Before the second world war, there was surplus agricultural population, and therefore underemployment, in nearly all areas of eastern Europe. It has been estimated<sup>2</sup> that nearly 10 million

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<sup>1</sup> UNITED NATIONS *Maintenance of Full Employment: An Analysis of Full Employment Policies of Governments and Specialised Agencies* (Lake Success, July 1949), p. 25.

<sup>2</sup> W. E. MOORE *Economic Demography of Eastern and Southern Europe* (League of Nations, Geneva, 1945).

of the agricultural population were surplus in Poland around 1930. Two factors have, however, made drastic changes in the agrarian situation in eastern Europe since the war. As is shown in table II, in Poland there have been substantial losses in population as a result of war losses and shifts of population

TABLE II POPULATION BALANCE SHEETS, POLAND, 1938-1945 <sup>1</sup>

	Thousands
At end of 1938 with 1938 frontiers	34,800
Population changes .	
Due to territorial changes . . . . .	— 3,600
Due to births . . . . .	+ 3,200
Due to deaths (normal) . . . . .	— 3,000
War losses .	
Military . . . . .	— 100
Civilian . . . . .	— 4,200
Population shifts, net (displaced persons) . . . . .	— 3,200
At end of 1945 with 1945 frontiers	23,900
At end of 1947 with 1947 frontiers	23,700 <sup>2</sup>

<sup>1</sup> "Population Changes in Europe, 1938-1947", *Economic Bulletin for Europe*, First Quarter 1949, Vol I, No 1 Prepared by the Research and Planning Division, E C E (U N).

<sup>2</sup> These data correspond roughly with the data published by the Central Office of Statistics of the Republic of Poland according to the General Summarised Population Census on 14 Feb 1940, taking into account the expatriation of the German population carried out in 1940

Similar population losses have also occurred in Czechoslovakia and Hungary, although to a less extent than in Poland. Of perhaps even greater importance has been the effect of the programmes, to some extent complementary, for reallocating land and

TABLE III LEVEL OF EMPLOYMENT IN INDUSTRY, 1948 <sup>1</sup>

Country	Index No (1938 = 100)
Bulgaria (1947)	160
Czechoslovakia	103
Hungary	112
Poland . . . . .	134

<sup>1</sup> UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE *Economic Survey of Europe in 1948* (Geneva, 1949), p. 8

expanding industrialisation. Table III shows that a large number of workers have been absorbed into industry, particularly in

Bulgaria and Poland. This rapid expansion of industry has created a labour shortage. Underemployment in eastern Europe has thus been less than in pre-war years. Such underemployment as exists today is largely seasonal. In some months of the year workers in agriculture are not fully employed. During the five to six months of intensive rural activity, however, there is in some countries even a large shortage of manpower. There is therefore no possibility, with existing techniques, of taking workers away from agriculture without serious repercussions on the volume of agricultural output. This seasonal underemployment could become an unemployment problem if agriculture were mechanised and if the mechanisation programme were not synchronised with industrial development. Analysis of existing plans in eastern Europe reveals that the planned investments in agriculture are still considerably lower than those in industry. In particular, they are designed to release agricultural labour at a rate no faster than it can be absorbed into industry.

The co-ordination of manpower programmes with production plans has limited unemployment and decreased underemployment. There is, however, always the possibility that non-accomplishment of economic plans, due, for instance, to conditions beyond the control of the planning authorities, may create problems in manpower policy. Imports of critical materials from areas outside eastern Europe are often of great importance to the accomplishment of plans. The availability of these imports, and of markets for export goods with which to finance them, are difficult to predict. The rehabilitation of German mining, for example, has limited the market for coal exports from eastern Europe and thus contributed to shortages of foreign exchange.

As for the countries of Asia and the Far East, in the absence of comprehensive and up-to-date statistical data it is extremely difficult to get an over-all picture of employment trends. In most of them it is today one of the stated objectives of governmental policy to increase employment opportunities and to reduce underemployment, in some, such as Ceylon, India, Pakistan and the Philippines, where the political conditions have been sufficiently stable to allow long-term economic planning, the Governments have undertaken ambitious schemes of economic development which should add considerably to the total volume of employment available in the long run. Ceylon's budget for 1949-1950 was, for instance, based on "the new principle of setting up a framework for the implementation of Government budgetary policies towards

full employment”<sup>1</sup> The implementation of these plans has, however, been hindered by a number of practical difficulties such as the need to avoid the creation of inflationary pressures by too rapid an expansion, shortage of the necessary foreign exchange, delays in importing the necessary capital equipment and the shortage of trained personnel

The available information strongly suggests that the employment situation in most of these countries has actually deteriorated since the war ended. As regards employment in factories, the position would appear to have become difficult in India during 1949 as a result of shortages of raw materials, the postponement of expansion schemes in view of the slump in the investment market and the tendency to cut costs by the use of labour-saving machinery and improved methods or organisation. In Japan, the one other country in the Far East with a developed large-scale industry, the introduction of the Economic Stabilisation Programme early in 1949, the cancellation of Government subsidies to industry and the widespread adoption of labour-saving devices with a view to cutting costs have reduced employment in some sectors of the economy. Among countries dependent upon the export of plantation products, the relative weakness in the post-war price of rubber would appear to have created in Ceylon a particularly difficult situation in respect of employment in rubber plantations. In Japan, India and Pakistan, the entry of repatriates and refugees, ranging around five million in each case, has presumably had further adverse repercussions in the employment market. In all the countries in the region, unemployment among the educated classes has always been a serious problem. The situation in respect of these classes seems to have become even more difficult during the post-war years, because of actual or impending retrenchment in Government administrative staffs as a result of budgetary cuts occasioned by governmental drives against inflation. In Burma, Indo-China and China, where production today is much below pre-war levels, lack of political stability and civil strife have been important contributory factors restricting employment opportunities.

In the Middle East, schemes of economic development planned during the closing years of the war have made much slower progress than was anticipated, owing to financial and currency diffi-

<sup>1</sup> Speech in the Senate by Senator H. E. JANSY, Parliamentary Secretary to the Minister of Finance, on the occasion of the second reading of the Appropriation Bill, 1950.



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culties and to delays in importing the required equipment. The employment market has been further disorganised by the emergence in a number of countries of a serious refugee problem as a result of the fighting in Palestine. These developments coupled, with the acknowledged high rate of increase in population, have aggravated the chronic problem of the region—widespread underemployment in the rural areas—and extremely restricted employment opportunities in the towns

## CHAPTER II

### UNDERLYING FACTORS IN CERTAIN COUNTRIES

In order to assess the significance of the trends in unemployment revealed by statistics of the kind cited elsewhere in this report it is necessary to analyse the underlying factors in the economic situation in the countries concerned. It is not possible in the space available to attempt such an analysis for all the countries that publish unemployment statistics, but the experience of the four countries discussed below—Belgium, the German Bizone, Italy and the United States—is of interest as exemplifying most of the main types of unemployment which exist in substantial volume at the present time.

#### Belgium

Current unemployment in Belgium appears to be due mainly to changes in the pattern of international demand for Belgian exports. As a result of these changes output and employment in some export trades have declined. In others a decline in sales and output has been avoided only by cost reductions achieved in part by reducing the numbers employed. A further factor contributing to the level of unemployment has been the relatively low level of investment in the construction industry.

Although Belgium was occupied during the second world war, its industry was not severely damaged and recovery was more rapid than in most of continental Europe. According to indices of the rate of progress in industrial production published by the Economic Commission for Europe, Belgian industrial progress by 1947 was exceeded in western Europe only by that of the Scandinavian countries and the United Kingdom.<sup>1</sup>

Thus relatively rapid recovery of Belgian industry enabled it to become an important source of products which were in very short supply in other European countries. Belgian goods were sold for export prices which were higher than Belgian domestic prices and also higher than the export prices of other countries. As is shown in table IV, this was particularly true in the steel industry.<sup>2</sup>

<sup>1</sup> UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE, RESEARCH AND PLANNING DIVISION, *Economic Survey of Europe in 1948* (Geneva, 1949), p. 5. The index of industrial production computed as a relative to 1938 was used as an indicator of industrial progress.

<sup>2</sup> *Ibid.*, p. 109.

TABLE IV HOME MARKET AND EXPORT PRICES OF STEEL  
IN THE UNITED KINGDOM, BELGIUM AND THE UNITED STATES,  
JANUARY 1949  
(Dollars per ton)

Product	United Kingdom		Belgium			United States	
	Home market prices	Export prices	Home market prices	Organised market export prices	Free market export prices	Home market price	Export prices
Heavy steel :							
Angles and joists	71	91	67	98	127	72	90
Plates, 10 mm and over	—	94	72	109	148	75	93
Boiler plates	77	102	—	—	—	—	—
Light steel .							
Rounds and squares under 76 mm. .	—	104	69	100	119	74	93
Wire rods .	77	—	80	107	131	80	92
Sheets 1 mm .	103	—	94	136	191	72	92

Source *Economic Survey of Europe in 1948, op cit*, p. 100

Belgian exporters were also able to arrange tie-in sales of goods that were not in short supply as a condition of filling orders for scarce commodities.<sup>1</sup>

After the second quarter of 1948, however, Belgian exports began to face shrinking markets and increased competition. Increased industrial production in other European countries enabled these countries to supply a larger proportion of their own domestic requirements and to enter export markets in competition with Belgium. There was also a tendency for Governments to avoid authorising purchases of imports from Belgium. In both 1947 and 1948 Belgium had extended credit to finance favourable balances of payments with other European countries, but in this same period it had an unfavourable balance of payments with the dollar area. Because soft currency credits were not always convertible into dollars, Belgium negotiated payments agreements with other European countries which provided that balances exceeding certain specified amounts in soft currencies should be paid in gold or dollars. Governments threatened with dollar shortages tried, therefore, to avoid imports from Belgium.

Because of the large role international trade plays in the Belgian economy, any substantial decline in exports would tend to reduce drastically national income. The relative importance of exports to the Belgium in a very rough way, in table V.

Although it must not be assumed that the gross value of Belgian exports all becomes a component part of the Belgian national income, this table does give strong evidence that if export trade were substantially reduced it would have more serious consequences for Belgium than for most other countries. This was the position which was taken

<sup>1</sup> *Economic Survey of Europe, op. cit.*, p. 138

TABLE V. EXPORTS AS A PROPORTION OF NATIONAL INCOME  
IN VARIOUS COUNTRIES, 1948

Country	National income	Exports	Ratio of exports to national income
	(thousand million)		
Belgium (francs) . . .	243.9	74 0	30 3
Canada (dollars) . . .	12 7	3.1	24 4
Norway ( kroner) .	8 8	2 0	22 7
Netherlands (guilders)	12.7	2 7	21 3
Denmark (kroner) . . .	15 8	2 7	17 1
United Kingdom (pounds)	9 8	1.6	16 3
France <sup>1</sup> (francs) . . .	3,178	213	6 7
United States (dollars) .	226 2	12 6	5 5

Source: Data compiled from INTERNATIONAL MONETARY FUND *International Financial Statistics* (Washington, Aug. 1949), except in the case of the national income of France which for 1947 was obtained from the U N *Monthly Bulletin of Statistics*, July 1949, p. 4

<sup>1</sup> 1947 data

by the Belgian Government in its reply to a questionnaire submitted by the Secretary-General of the United Nations. The reply stated, *inter alia*, that " . . . the maintenance of a high level of employment in an essentially manufacturing and exporting country like Belgium would be completely impossible without the existence and expansion of a large volume of trade" <sup>1</sup>

Of the monthly average of about 112,000 workers who were unemployed in Belgium in the first quarter of 1948, about 34,000 or 30 per cent were in six industrial or occupational groups—diamonds, textiles, clothing, metals, transport, and dockers—in which the level of activity and employment is highly dependent on exports. In the first quarter of 1949 these groups accounted for about 90,000 or 37 per cent of the average of 243,000 unemployed. These data probably understate the relationship of the export trades to unemployment because the large category of "unskilled workers"—which accounted for about 71,000 of the unemployed in the first quarter of 1949—is not divided among industry groups. A large proportion of these workers are no doubt dependent for employment on the export trades.

The increased difficulty experienced by Belgium in keeping its exports at a high level has led in two quite different ways to increased unemployment in these industries. In some of the export industries, production has declined as a consequence of declining export demand and unemployment has increased as production has fallen. In other cases, production and exports have been maintained at a high level by drastically reducing labour costs, a process which has involved

<sup>1</sup> UNITED NATIONS, DEPARTMENT OF ECONOMIC AFFAIRS *Maintenance of Full Employment* (Lake Success, New York, July 1949), p. 80

improved plant organisation and the displacement of some workers by labour-saving machinery<sup>1</sup>

The diamond industry is an extreme example of the first of these two tendencies of export difficulties to increase unemployment. Unemployment in this industry has increased rapidly as a direct result of declining exports to a rapidly contracting world market. In May 1949 the proportion of unemployment among diamond workers had reached about 71 per cent.<sup>2</sup> Although there was some improvement in later months, export demand continued to be very low.

In textiles, on the other hand, quite different factors have affected employment. Exports and industrial production in textiles declined in 1948, early in 1949, however, this industry had almost regained the position in export trade and industrial production that it held early in 1948. But as industrial production in textiles has increased, unemployment, although somewhat relieved, has not been reduced to early 1948 levels. Since in Belgium the recorded figures of unemployment in a particular industry represent only the number of persons out of work who formerly held jobs in the industry and do not include new applicants for work, this tendency for unemployment to remain at a high level cannot be explained by changes in the labour force. Industrial production and unemployment in the textiles industry are shown in table VI.

The fact that unemployment increased while industrial production was also increasing may be attributed to efforts to maintain exports by reducing costs. This involved the introduction of labour-saving

TABLE VI INDUSTRIAL PRODUCTION AND UNEMPLOYMENT IN THE TEXTILE INDUSTRIES IN BELGIUM, 1948 AND 1949

*Index (1947=100)*

Quarter	Volume of production in the textile industries <sup>1</sup>	Average quarterly unemployment in textiles <sup>2</sup> (in thousands)
1948		
I	94	11.3
II	90	12.4
III	80	17.6
IV	89	27.9
1949		
I	92	28.2
II	93	27.0 <sup>3</sup>

<sup>1</sup> *Economic Survey of Europe on call*, p. 42

<sup>2</sup> Derived from *Bulletin de Statistique* (Brussels), Jan. and June-July 1949

<sup>3</sup> Average for Apr. and May

<sup>1</sup> Average labour costs in Belgian industry as a whole appear to have been high relative to those of other European countries. According to recent calculations by the Secretariat of the United Nations Economic Commission for Europe, they were almost three times as high (in terms of United States dollars) in 1948 as in 1935-1938, as compared with about twice or less than twice as high in Denmark, France, the Netherlands, Norway, Sweden and the United Kingdom. See UNITED NATIONS *Economic Bulletin for Europe*, Second quarter 1949, p. 35.

<sup>2</sup> INSTITUT NATIONAL DE STATISTIQUE, MINISTÈRE DES AFFAIRES ÉCONOMIQUES ET DES CLASSES MOYENNES *Bulletin de Statistique*, June-July 1948, p. 897.

machinery and changed methods of factory organisation<sup>1</sup> Even the high level of production in 1949, which approached the early 1948 level, did not mean a correspondingly high level of employment

In the metal industries the decline in exports does not appear to be an adequate explanation of all the unemployment that has developed in that sector of the economy As is shown in table VII, unemployment has been steadily rising in the metal industries, even in periods when industrial production was increasing

TABLE VII INDUSTRIAL PRODUCTION AND UNEMPLOYMENT IN THE METAL INDUSTRIES IN BELGIUM, 1948 AND 1949

Quarter	Volume of production in engineering industries <sup>1</sup> (1947=100)	Volume of production in metallurgical industries <sup>2</sup> (1936-38=100)	Unemployment in the metal trades <sup>3</sup> (in thousands)
1948			
I	117	122	4.9
II	127	152	5.0
III	109	133	6.8
IV	120	143	9.9
1949			
I	125	150	18.0
II	127	130	19.3

<sup>1</sup> *Economic Survey of Europe*, op cit, p. 40 These data contain a weight for Luxembourg

<sup>2</sup> *Bulletin de Statistique*, June-July 1949, p. 968 These data must be used with caution They appear not to have the same scope as the data on unemployment of metal workers

<sup>3</sup> Derived from *Bulletin de Statistique*, Jan. and June-July 1949

The figures in the table suggest that, as in the case of textiles, a large proportion of unemployment in the metal industries may be the result of severe pressure to reduce costs

The over-all indices of production and employment in industry also indicate that pressures to reduce costs have increased unemployment simultaneously with rising production This tendency is illustrated by table VIII

Although data on unemployment among dockers, transport workers, unskilled workers, and clerical and administrative workers are difficult to relate to indices of production in any particular industries, it appears likely that increased unemployment in these occupations is partly a consequence of declining sales of some exports and consequent pressures to reduce costs in the export industries

In addition to externally induced pressures on employment in the export trades, Belgium is also confronted with a rising level of unemployment in industries which produce exclusively for the domestic market In October 1944 Belgium blocked a large proportion of its bank deposits In October 1945 a capital levy and heavy taxes on excess war profits and profits from transactions with the enemy were imposed These financial measures, together with the rapid recovery of its industry, enabled Belgium to avoid such severe inflationary and

<sup>1</sup> Cf. L. DELSINNE "Particularités du chômage et de l'emploi", in *Revue du Travail*, June 1949, p. 515, and "The Manpower Situation in Belgium", in *Industry and Labour*, Vol. II, No. 8, 15 Oct. 1949, p. 329

TABLE VIII. INDUSTRIAL PRODUCTION AND EMPLOYMENT  
IN BELGIUM, 1948-1949  
*Index (1947=100)*

Quarter	Index of volume of production <sup>1</sup>	Index of employment <sup>2</sup>
1948		
I	106	104
II	107	104
III	107	104
IV	113	103
1949		
I	113	101
II	110	100
III	102	95

<sup>1</sup> *Economic Survey of Europe, op cit*, p. 39.

<sup>2</sup> *Ibid*, p. 60

deflationary pressures as other European countries have experienced <sup>1</sup> Nevertheless, aggregate demand in Belgium appears to be declining, particularly in the investment sectors, as is indicated by the high levels of unemployment in the building trades and the declining production of building bricks and cement

Unemployment in the construction industry averaged about 10,100 in the third quarter of 1949 as compared with about 6,100 for the same period of 1948 <sup>2</sup> The average monthly volume of production of building bricks in the third quarter of 1949 was 179 million as compared with 251 in the same period of 1948 The average monthly volume of production of cement in the third quarter of 1949 was 262,000 metric tons, as compared with 289 in the same period of 1948 <sup>3</sup>

### German Bizone

Unemployment in the German Bizone is very closely associated with population movements Since the end of the second world war, about eight million refugees of German nationality have emigrated to the Bizone from territories east of the Oder-Neisse line and from the Soviet Zone They now comprise more than 20 per cent of the population of the Bizone These refugees, the demobilised army, and repatriated German prisoners of war are the main factors which account for an increase of about 26 per cent in the Bizone labour force between March 1946 and June 1948 <sup>4</sup>

<sup>1</sup> Cf V DE RIDDLER "The Belgian Monetary Reform, An Appraisal of its Results", in *The Review of Economic Studies*, Vol XVI, No. 30, p. 25

<sup>2</sup> BANQUE NATIONALE DE BELGIQUE. *Bulletin d'information et de documentation*, Nov. 1949, p. 81.

<sup>3</sup> UNITED NATIONS *Monthly Bulletin of Statistics*, Dec. 1949, pp. 63-67.

<sup>4</sup> OFFICE OF THE MILITARY GOVERNMENT FOR GERMANY (UNITED STATES) *Statistical Annex, Report of the Military Governor* (Berlin, June 1949), pp. 59, 23, 25 and 26 Data on Bizone population and unemployment exclude displaced persons and persons who were formerly held as prisoners of war by the Germans These people were not of German nationality and

(Footnote continued overleaf)

It is doubtful whether an increase of such proportions in the labour force could be integrated into any economy without giving rise to serious transitional problems. The devastated and disorganised Bizone was particularly ill-adapted to absorb such numbers of immigrants and returning soldiers. Nevertheless, in the period between March 1946 and the currency reform of June 1948 the percentage of registered unemployed to the labour force declined from 6.4 to 2.5, and employment increased by about 3.7 million.<sup>1</sup>

This low level of unemployment, as it is defined from a strictly statistical point of view, was not, however, in any sense an indication of a high level of prosperity in the Bizone. It was rather a consequence of the barter and black market economy which developed during this period. As will be explained below, these developments resulted in widespread "misallocated" employment of the kind which is characteristic of conditions of economic disorganisation.

Under the Nazi régime monetary circulation in the Bizone had increased rapidly, but prices had been rigidly controlled. After the end of the second world war, it soon became evident that the official price levels were incompatible with the expanded supply of money and that either the Bizone would have hyper-inflation or the supply of money would have to be reduced.<sup>2</sup> Early in 1947 it became evident that the latter policy would be followed by the occupation authorities. This expectation of a monetary reform resulted in a general repudiation of the Reichsmark. Aside from the black market, almost all business was carried on by complicated barter transactions. Shops were virtually empty of unrationed goods to be sold for cash. Producers and distributors avoided holding money and tried to keep large stocks of goods as a hedge against the time when the quantity of money would be substantially reduced. These large inventory accumulations made the quantities of goods available to consumers even smaller than the low volume of production.<sup>3</sup>

Under these conditions of rigid controls and repudiated currency the economic motivations of both farmers and workers were very different from what is usually found in a normal money economy. Workers had little incentive to earn more than the small sums that were required to pay for very low levels of rationed goods. Instead of working for wages beyond those required for this purpose, workers preferred to engage in petty trade or to go to the country to search and

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were under the authority of the International Refugee Organisation, waiting to be repatriated or to find countries that would accept them as immigrants. They were not included in population or unemployment data, but some of them lived outside the camps in which they were originally assembled and some obtained permits to work in the German economy while they continued to live in the camps. The methods of accounting for displaced persons who obtained employment in the German economy differ in the British and American sectors, but the number does not appear to have been large. In the British Zone, employment of displaced persons in the German economy did not exceed 20,000 or 10 per cent of the number in assembly centres. In the United States Zone, the number of non-Germans living outside of assembly centres amounted to about 200,000 in March 1949.

<sup>1</sup> OFFICE OF THE MILITARY GOVERNMENT FOR GERMANY. *op. cit.*, p. 59.

<sup>2</sup> Cf. H. IRMLER "The Development of the Economy of Western Germany since the Currency Reform of June 1948", *Journal of the Institute of Bankers*, Oct. 1949, p. 145.

<sup>3</sup> DEUTSCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG. *Die deutsche Wirtschaft zwei Jahre nach dem Zusammenbruch* (Berlin, 1947), p. 230.



barter for food. Absenteeism was therefore widespread.<sup>1</sup> Because the level of goods produced in the cities was low and because they would not accept Reichsmarks for their products, farmers often had artificial surpluses of their produce. These artificial surpluses were used in ordinarily uneconomic ways.

This disorganisation of the German economy produced several forms of misallocated employment that could not long survive the return to a money economy after the currency reform. The most important types of misallocated employment appear to have been as follows:

(1) Excessive employment of agricultural workers. The artificial surpluses of farm products were used to hire additional workers, particularly refugees, who rather than face starvation in the cities were willing to work on farms in exchange for little more than food. Farmers, being unable to get a satisfactory supply of manufactured goods in exchange for their own products, were willing to devote a larger proportion of their output to hiring additional workers. Refugees composed a large proportion of this misallocated employment in agriculture. The three predominantly agricultural Länder of Bavaria, Lower Saxony and Schleswig-Holstein by June 1949 had absorbed 73 per cent of the increase in Bizone population.<sup>2</sup>

(2) Many firms had an unusually large number of workers on their payrolls. Because absenteeism was widespread, there was a strong incentive for employers to hire more workers so that there would be less risk of being caught with insufficient help. The marketing and financial aspects of business also required an unusually large clerical and administrative staff to arrange for the complicated "compensation" deals that were necessary in order to barter finished products for necessary raw materials.<sup>3</sup> Widespread controls also required heavy administrative staffs in the Military Government.

Quantitative estimates of the size and composition of these varieties of misallocated employment are not available. The importance of this factor, however, became evident after the currency reform of June 1948.

This reform had the effect of exchanging the old currency for a new money issue at an average ratio of about 10 to one.<sup>4</sup> The new note issue (Deutsche Mark) gained the confidence of the German people and a money economy was restored. The barter economy came to an end and large stocks of goods, formerly held for barter trade or as a store of value, were placed on the market. Absenteeism declined as wage payments began to have value to purchase goods above rationed amounts. Industrial production increased rapidly.

The effect of the currency reform on employment in agriculture and administrative services is clearly shown in table IX. Farmers now had a market for their products and were much less eager to have extra workers to feed. Refugees, who were frequently industrial workers by trade, were often eager to leave agriculture for industry. Fewer administrative personnel were required in the Military Government. Thus after the currency reform, employment in agriculture and

<sup>1</sup> Cf. F. LUTZ, "The German Currency Reform and the German Economy", in *Economica*, May 1949.

<sup>2</sup> OFFICE OF THE MILITARY GOVERNMENT FOR GERMANY (UNITED STATES). *Monthly Report of the Military Governor* (Berlin, July 1949), p. 105.

<sup>3</sup> F. LUTZ, *op. cit.*, p. 122.

<sup>4</sup> Cf. *Mitteilungen der Bank Deutscher Länder*, No. 13 (Frankfurt), 22 Oct. 1948.

TABLE IX LABOUR FORCE, EMPLOYMENT, AND UNEMPLOYMENT  
IN THE BIZONE OF GERMANY, 1947, 1948 AND 1949 <sup>1</sup>  
(in thousands)

Quarter	Labour force	Unemployment	Employment					Total
			Agriculture and forestry	Industry and handicrafts	Commerce and transport	Public and private services	Domestic service	
1947 · Mar	17,044	842	4,631	6,221	2,613	2,098	639	16,202
June	17,268	630	4,659	6,467	2,701	2,167	644	16,638
Sept	17,389	488	4,644	6,629	2,776	2,226	626	16,901
Dec	17,601	460	4,697	6,781	2,858	2,276	629	17,141
1948 · Mar	17,670	462	4,533	6,877	2,901	2,287	610	17,208
June	17,949	442	4,513	7,101	2,988	2,305	600	17,507
Sept	18,214	768	4,401	7,250	2,982	2,230	583	17,446
Dec.	18,404	743	4,311	7,565	3,031	2,180	576	17,661
1949 Mar.	18,541	1,132	4,229	7,432	3,031	2,146	571	17,409
June	18,717	1,238	4,267	7,469	3,069	2,120	564	17,479
Sept	—	1,261	—	—	—	—	—	—
Dec.	—	1,482	—	—	—	—	—	—

Source OFFICE OF THE MILITARY GOVERNMENT FOR GERMANY *Statistical Annex, Report of the Military Governor*, June 1948, pp. 59 and 61, and for June 1949 STATISTISCHES AMT DES VEREINIGTEN WIRTSCHAFTSGEBIETES *Wirtschaft und Statistik* (Stuttgart, W. Kohlhammer-Verlag), 19 Sept. 1949, pp. 419, 421, and 422

<sup>1</sup> In this table, data were collected at the end of each month listed, and should not be interpreted as quarterly averages

public and private services began to decline and this trend has continued since that time. Employment in industry and handicrafts began to increase. Between June and September 1948 there was a net decline in employment of only about 50,000. Thus in the few months after the currency reform there was a fairly smooth redirection of workers into industry without any large decrease in employment.

The currency reform was, however, followed by a brief but rather severe period of inflation due to a rush of consumer buying and the relaxation of price controls.<sup>1</sup> This resulted in an optimistic outlook for profits and increased investment. Many new firms were established, particularly by refugees, often with a precarious financial foundation.

The inflation which followed the currency reform resulted in a temporary reversal of the downward trend of employment; employment rose from 17,446,000 to 17,661,000 between September and December 1948 in spite of the continuing decline in the agricultural and public and private services categories. In this same period, however, unemployment increased by about 41,000 because of the increasing size of the labour force.

Late in 1948, however, the inflation was broken after credit restrictions were applied by the banking system, taxes were increased, and consumers began to save a larger proportion of their income. The end of inflation was followed by a process of liquidation of stocks, similar

<sup>1</sup> Cf. F. FLOPSTOCK "Monetary Reform in Western Germany", *Journal of Political Economy*, Aug. 1949, p. 287.

to that which is described below in the cases of the United States and Italy, and by the failure of a large number of small firms, particularly those which refugees had founded without sufficient capital to withstand business reverses.<sup>1</sup> Between December 1948 and June 1949 employment in industry and handicrafts, which had been rising in previous periods, declined by 130,000. Total employment fell by about 250,000. In this same period unemployment increased by about 460,000. The increase in unemployment was thus due to the combination of a rising labour force and declining employment.

The decline in employment in industry as a consequence of deflationary pressures was not, as was observed in the United States, always accompanied by a decline in industrial production. Rather, as in the case of Belgium, industrial production has sometimes increased while employment in industry has been falling. Although employment in industry and handicrafts declined between December 1948 and March 1949, the index of the volume of industrial production in this period increased from 79 to 90.<sup>2</sup> Although these statistics may not have exactly the same scope, they are evidence that under pressure of falling prices and demand, producers attempted to reduce wage costs by cutting their staffs without decreasing output. These pressures were no doubt felt particularly strongly by firms that lacked sufficient reserves to survive financial reverses in a tight credit market. Opportunities for reducing working staffs without substantially reducing production were perhaps more widespread than might be found in other less disorganised economies.

There are, however, technological limits to the possibilities of economising by engaging fewer workers. If industrial production continues to increase in the Bizone, more workers will need to be engaged to produce increased output. In order to maintain full employment, employment in industry must increase rapidly enough to absorb both the increase in the labour force, including especially the continuing inflow of refugees, and the workers who may continue to move away from agriculture. Since the end of the inflation which followed the currency reform, the number of workers engaged in German industry has not been sufficient to accomplish this. Whether or not full employment can be achieved in the Bizone depends on the capacity of German industry and on the extent to which effective demand for manufactured goods is maintained at a high level.

### Italy

Unemployment in Italy arises mainly from the pressure of population against a limited supply of capital, particularly in the south. It has been estimated that each year the population of working age in Italy increases by 300-350,000 persons.<sup>3</sup> This increasing population places

<sup>1</sup> R. BECKNER, *Unemployment and Underemployment in the Bizonal Area of Germany* (Berlin, Office of the Military Government for Germany), p. 30.

<sup>2</sup> OFFICE OF THE MILITARY GOVERNMENT FOR GERMANY: *Monthly Report of the Military Governor*, *op cit.*, p. 129.

<sup>3</sup> V. MARRAMA, *Teoria e Politica della Piena Occupazione* (Rome, Università di Roma, Istituto di Economia e Finanza), 1948, p. 291, cf. V. MARRAMA, "Some Aspects of Italian Economy and the Theory of Full Employment", in *Quarterly Review* (Banca Nazionale del Lavoro), Jan. 1948, p. 221.

a severe burden on an already undercapitalised economy. Prior to 1915, emigration provided an outlet for a large proportion of the new members of the labour force. Between 1901 and 1915 annual emigration exceeded 600,000<sup>1</sup>. After 1921, however, restrictions were placed both on emigration from Italy and on immigration into the countries to which most Italian would-be emigrants wished to go. Emigration declined rapidly to an average of less than 70,000 between 1936 and 1940 and was, of course, very much restricted during the second world war<sup>2</sup>.

The capacity of southern Italy to provide employment for increased population has long been limited. Since 1921, although population in this area has increased by about 58 per cent, employment has increased by only some 2 per cent<sup>3</sup>. These facts reflect the low level of new investment in southern Italy, a region which, unlike most other parts of western Europe, exhibits many of the characteristics of an underdeveloped area, such as those discussed in chapter VII below.

Under these conditions of rapidly growing population, with the added burden of a depressed area in southern Italy, the whole of Italy suffers from unemployment owing to shortage of capital. This type of unemployment cannot be effectively remedied either by a high level of aggregate demand or by improved organisation of the labour market. There are physical limits to the number of workers who can be employed and the quantity of goods that can be produced with limited capital, even under the incentives to increased production which are usually provided by a high level of demand. When plants are operated at full capacity, the labour requirements of industry are often quite rigid. In power stations, textile mills and steel mills, for example, there is little advantage to be gained from additional workers, even at low real wages, after necessary operating crews for maximum output have been engaged. Where industrial capacity is so limited and is fully utilised, high effective demand cannot appreciably increase employment. The large monetary expansion which accompanied the post-war inflation in Italy thus had very little effect on aggregate employment.

Improved organisation of the labour market, including programmes for retraining workers, might provide some new job opportunities for particular types of labour. Gradual re-allocation of capital over an extended period of time might enable more employment to be provided even if the total stock of capital were not increased. It is very doubtful, however, whether any reorganisation of the labour market or re-allocation of existing capital could provide enough jobs for all the Italian labour force at wages above the minimum subsistence level. A noted Italian economist has concluded that "it would be silly to expect the scarce capital Italy disposes of to be able to absorb all the surplus manpower, even if that perfect freedom of the market were achieved upon which many theoretical schemes are based. Undoubtedly the "marginal productivity" of labour would drop to so low a level as to make it quite impossible to ensure to the worker wages that would at least suffice for the minimum needs of subsistence. The achievement

<sup>1</sup> A. OBLATH, "Italian Emigration and Colonisation Policy", in *International Labour Review*, Vol. XXIII, No. 6, June 1931, p. 819.

<sup>2</sup> *Year Book of Labour Statistics, 1947-48* (Geneva, I.L.O., 1949), p. 283.

<sup>3</sup> A. MOLINARI: "Southern Italy", in *Quarterly Review* (Banca Nazionale del Lavoro), Jan. 1949, pp. 25 *et seq.*

of social balance and not merely of arithmetical balance would be out of the question”<sup>1</sup>

According to current estimates, unemployment in Italy is in excess of 1.6 million. These estimates do not, however, take into account the large number of agricultural workers who are underemployed and who remain in agriculture because there are few or no alternative opportunities for employment. It is doubtful whether agricultural production would decline substantially if these workers found non-agricultural employment. A pre-war study of the League of Nations estimated that Italy had a “surplus population” of 4.8 million on the land<sup>2</sup> and it seems possible that the number may be higher today.

Analysis of unemployment statistics must also take into account the so-called “labour block” laws which placed severe restrictions on the discharge of workers by employers in industry and agriculture and which presumably had the effect of maintaining substantial numbers of workers in a state of underemployment.

Increased industrial capacity to engage more workers and increased emigration would appear to offer the only solutions for the type of unemployment due to capital shortage with which Italy is at present burdened.

As regards emigration it may be noted that there were about 45,000 net emigrants from Italy in 1946 and 130,000 in 1947<sup>3</sup>. The 1947 figure is larger than in most European countries and appears to be the largest net emigration from Italy since 1924<sup>4</sup>. This level of emigration is, however, much less than the estimated annual increase in the labour force and offers only a partial solution to the problem of unemployment<sup>5</sup>.

An increase in industrial capacity can be achieved only by increased investment. This in turn requires an increased volume of saving which, as is noted in chapter VIII below, is extremely difficult to achieve in a country where *per capita* income is relatively low. In the case of Italy, aid received from the United States Economic Co-operation Administration has recently enabled a larger volume of investment to be undertaken than might otherwise have been possible. It is, however, at least doubtful whether investment on the scale at present contem-

<sup>1</sup> C. BRESCIANA-TURRONI, “Credit Policy and Unemployment in Italy”, in *Review of Economic Conditions in Italy* (Banco di Roma), May 1949, p. 171.

<sup>2</sup> W. E. MOORE, *Economic Demography of Eastern and Southern Europe* (League of Nations, Geneva, July 1945), p. 63. “Surplus population” was defined as the difference between the actual agricultural population and the “standard agricultural population” of an area. “Standard agricultural populations” were computed by dividing indices of agricultural net production of the particular area by indices of the average product per person in the agricultural population of Europe as a whole.

<sup>3</sup> Derived from *Year Book of Labour Statistics, 1947-48* (I.L.O., Geneva, 1949), p. 283. The figures represent the total of emigrants less immigrants.

<sup>4</sup> Based on A. OBLATH *op. cit.*, p. 807. The data in this article are not strictly comparable with the above *Year Book* data: they represent net emigration, which is defined as emigration minus repatriates. Migration and net emigration in the case of Italy are, however, roughly comparable because a large proportion of immigrants to Italy are repatriates. In 1924 migration from Italy was 186,000. In 1925 this figure was 91,000 and migration from Italy declined further in most of the years prior to the second world war.

<sup>5</sup> For a brief account of international action to overcome obstacles to emigration, see chapter IX below.

plated can succeed in providing jobs for the whole of the Italian labour force.

The long-term investment programme requiring \$6,700 million, which Italy submitted to the O E E C in 1948 and which was considerably curtailed by that body and by the E C A, envisaged only the following increases in employment by 1952<sup>1</sup>.

Agriculture . . . . .	25,000
Industry and handicrafts . . . . .	425,000
Building and public works . . . . .	300,000
Civil service, trade and transport . . . . .	400,000
	<hr/>
	1,150,000

In this same period, between 1948 and 1952, however, the labour force is likely to increase by more than 400,000<sup>2</sup>, and in mid-1948 there were about 1.8 million unemployed. It would seem unlikely therefore that unemployment could be reduced much below one million by this investment programme, even if it should be carried out in its entirety.

It is also significant that a high proportion of investment in Italy in producers' durable goods tends to be directed to those industries which employ small numbers of workers per unit of capital invested. This tendency can be seen from table X.

Nearly two thirds of new investment is in industries which provide relatively small volumes of employment. In some instances, moreover, new investment may tend, at least in the short run, to lower these indices of employment potential. After new investments are made, additional workers may not be engaged, instead the workers already employed may be spread more thinly over an increased stock of capital. Workers may even be displaced by new investment in labour-saving machinery and, in the short run, unemployment may be increased.

In the long run, however, the development of producers' goods industries such as steel and power may reduce costs in less heavily capitalised industries such as textiles and engineering, so that they will be able to expand production and employment, particularly in industries producing for export markets. Expanded markets, investment and employment may also be a long-run consequence of investment in labour-saving machinery. But such possibilities are too far in the future to be evaluated at all accurately.

<sup>1</sup> ORGANISATION FOR EUROPEAN CO-OPERATION *Interim Report for the European Recovery Programme*, Vol. II (Paris, Dec 1948), p. 595. It is not clear whether or not these estimates were intended to include employment which might arise from successive spending of the original investment funds. In so far as these effects were not taken into account the estimates should be higher. As was pointed out above, however, an increased volume of spending is often ineffective to relieve structural unemployment. It must also be taken into account that a large number of the workers employed in the actual construction and installation of new fixed capital may again be unemployed after new projects are completed unless investment in industry remains at a high level.

<sup>2</sup> UNITED STATES ECONOMIC CO-OPERATION ADMINISTRATION *op cit*, p. 47. Some estimates are higher. Cf. R. TREMELLONI "The Italian Long Term Program Submitted to the O E E C", in *Quarterly Review* (Banca Nazionale del Lavoro), Jan-Mar 1949, p. 20. This author estimates that the labour force will increase by some 960,000.

TABLE X PROPORTIONS OF NEW INVESTMENT GOING INTO CERTAIN INDUSTRIES IN ITALY AND EMPLOYMENT-CREATING POTENTIAL OF SUCH INVESTMENT<sup>1</sup>

Industry	Per cent of new investment in the 1951-1952 plan <sup>1</sup>	Per cent of all industrial capital in 1938 <sup>2</sup>	Index of employment potential <sup>2</sup>
Electric power	42.4	16.9	0.08
Textiles	19.2	14.4	1.4
Engineering	16.1	17.9	1.2
Iron and steel	15.5	6.3	0.5
Chemicals	3.9	9.0	0.4
Other	3.0	35.5	1.4

<sup>1</sup> Percentages of planned investments are obtained from ECONOMIC CO-OPERATION ADMINISTRATION *Country Study Italy* (Washington, D.C., Feb. 1949), p. 49.

<sup>2</sup> R. TRIMPTONI "Premesse e compiti del Fondo per il Finanziamento dell'Industria Meccanica", in *Moneta e Credito*, 1st quarter 1948, p. 34, and "Promises and Tasks of the Special Fund for Financing the Italian Engineering Industry", in *Quarterly Review* (Banca Nazionale del Lavoro), Oct. 1947, p. 189. The index of employment potential was derived from the data contained in this article by dividing the percentage of capital invested in each industry into the percentage of total industrial employment in the industry.

Lack of adequate industrial capital is thus the major problem underlying the unemployment situation in Italy, but during the past two years this basic difficulty has been complicated by strong deflationary tendencies. Industry has in fact operated at less than its present full capacity. As was pointed out above, Italy was under strong inflationary pressure for several years before 1947. This inflation was finally broken in October 1947, after severe restrictions had been placed on bank credit. As was true in the United States in 1949, deflation caused a sharp reversal of the strong tendency of private investment to flow into business inventories. Data on the extent of inventory liquidation in Italy are lacking, but since the proportion of private investment directed into inventory accumulation was more than 50 per cent in both 1946 and 1947<sup>1</sup>, there is reason to believe that the decline in industrial production and employment in early 1948 represented mainly an inventory depression. Between December 1947 and May 1948 registered applicants for work increased by about 640,000 to a peak of 2.4 million.<sup>2</sup>

Although there was some increase in industrial production by the third quarter of 1948 and unemployment began to decline after May 1948<sup>3</sup>, there was indirect evidence in Italy's national income accounts that the large volume of investment which was formerly in inventories had not been redirected to housing and producers' durable goods in sufficient volume to maintain aggregate demand at a high level. Available national income accounts for 1947 and 1948 indicate that while gross national product between these years increased by 460,000 million lire, consumption increased by 347,000 million lire and investment declined slightly.<sup>4</sup> An increased volume of investment to make up

<sup>1</sup> UNITED STATES ECONOMIC CO-OPERATION ADMINISTRATION. *op. cit.*, p. 72.

<sup>2</sup> Cf. *International Labour Review*, Vol. LVIX, No. 1, Jan. 1949, p. 108.

<sup>3</sup> Report of the Bank of Italy, 1948, summarised in the *Review of Economic Conditions in Italy* (Banco di Roma, July 1949), pp. 291-293.

the difference between gross national product and consumption appeared consequently to be necessary in order to prevent gross national product from declining<sup>1</sup> A decline of gross national product would probably result in increased unemployment unless prices fell sufficiently to maintain aggregate real purchasing power It is therefore of particular interest to note the decision of the United States Economic Co-operation Administration in October 1949 to authorise the release of 60,000 million lire of counterpart funds for various public works projects<sup>2</sup> About 23,000 million lire of these funds were to be devoted to residential construction projects There seemed little danger that this housing programme would have inflationary effects, as labour and materials in the building industry were apparently not fully utilised between 1947 and 1948 employment in the construction industry declined by 85,000<sup>3</sup> Between March 1948 and March 1949, employment in brick works fell 15 per cent, in chalk kilns and lime kilns 7·8 per cent, and in cement works 4·8 per cent Employment in brick works had already declined 29 per cent between 1947 and 1948<sup>4</sup>

### United States<sup>5</sup>

The character of the recent business recession in the United States was to a great extent determined by the pattern of reconversion from the second world war Even before the surrender of Japan, the Government began to demobilise its military forces and to cancel or refrain from renewing orders for raw materials Between 1945 and 1947 the civilian labour force increased by over six million, mainly because of rapid demobilisation of the armed services In this same period, war plants drastically curtailed operations It had been feared that aggregate demand of producers and consumers would not be large enough to provide employment for this enlarged and redistributed civilian labour force Predictions of wide-spread unemployment were not borne out, however, largely because both private individuals and business firms proved eager to replace depleted stocks of goods and to undertake new investment projects Business inventories were at a low level and firms wanted to replace equipment which was worn or obsolete Consumers wanted to replace worn out or exhausted supplies of both durable and non-durable goods

This strong propensity to spend was more than adequately supported by a high volume of purchasing power The war had been financed not only by taxation but also by new additions to the money supply Money in circulation increased from \$11,200 million in 1941 to \$29,000 million in 1946 In this same period gross national product (the sum of expendi-

<sup>1</sup> An improvement in the Italian balance of payments of international trade will also tend to increase gross national product The present unfavourable balance of payments is, however, probably less than 5 per cent of gross national product Even a substantial reduction in this deficit would therefore be unlikely to maintain gross national product at its present level unless there is also an increased volume of investment expenditure.

<sup>2</sup> *New York Times*, 8 Oct 1949

<sup>3</sup> ECONOMIC CO-OPERATION ADMINISTRATION *op cit*, p. 60

<sup>4</sup> Cf *Industry and Labour*, Vol III, No 2, 15 Jan 1950, p. 61

<sup>5</sup> The statistical data quoted in this section are taken from the *Survey of Current Business* (Department of Commerce, Washington, D.C.), July 1949 and Jan 1950.



tures by consumers, investors and the Government <sup>1)</sup> increased from \$126,400 million to \$212,600 million, but rationing and patriotic motives led individuals and firms to retain a large proportion of their incomes in cash or highly liquid assets, such as war bonds.

Thus the end of the war did not result in any sustained reduction in aggregate demand. Indeed gross national product, after a decline of \$3,000 million between 1945 and 1946, increased to an unprecedented level of \$235,700 million in 1947. Civilian employment, after an initial drop of about 1.1 million in 1945, had by 1946 reached a new high of 55.3 million.

There are, however, dangers to full employment when gross national product contains a large component of expenditures which are directed to satisfying replacement demand. When households are again restocked with goods and the investment plans of business are completed, a shortage of aggregate demand may result. This tendency has appeared in the United States economy, but successive lags in the reconversion of particular industries have had the effect of spreading the replacement demand by consumers and investors over an extended period. As effective demand began to "dry up" in a particular sector of the economy, new, previously limited, outlets for consumption and investment became available. Production and consumption of non-durable consumer goods, particularly clothing, expanded rapidly from 1945 onwards, while durable goods, such as household equipment and automobiles, became available in quantity only at a later date. The proportion of total consumption represented by durable goods rose gradually from 6.2 per cent in 1945 to 13.2 per cent in 1948. In the case of investment the corresponding shift in availability has been from producers' durable goods to construction. In 1945, new construction comprised 34.2 per cent of investment, excluding inventories. By 1948 this proportion had increased to 45.3 per cent. These shifts in consumption and investment are reflected in a changed distribution of employment among industries. Between 1946 and 1948, while total civilian employment increased by about 11 per cent, employment in durable goods manufacture increased by about 14 per cent and in construction by about 24 per cent. Although some of the new jobs in the durable goods and construction industries were no doubt filled by new members of the labour force, there was considerable movement of workers from other industries into such jobs. Some frictional unemployment was a necessary consequence of this movement of workers from one industry to another, but the total volume of such frictional unemployment was small.

Thus, aggregate consumption and investment during the period of reconversion remained in general high, owing to the fact that declines for particular industries were distributed over the whole period instead of all occurring simultaneously. Recently, however, aggregate investment has tended to decline. By the beginning of 1948 private investment, seasonally adjusted every quarter, was increasing at a decreasing rate and early in 1949 there was an actual decline from \$48,000 million to \$41,200 million, with a consequent fall in national income and in employment.

This decline in income and employment was not due to any major change of investment plans in either construction or producers' goods. It appears rather to have been what is known as an inventory depression.

<sup>1</sup> Gross national product also includes the balance of payments in international trade, but in the case of the United States this component of gross national product is considerably less important than the other three.

Instead of buying new stocks of goods at a rapidly increasing rate, business men began to liquidate accumulated inventories. This accumulation and subsequent "unloading" of inventories is explained by two quite different factors.

(1) The end of price controls in 1946 led to considerable speculative holding of inventories as prices increased. Instead of focusing their attention purely on estimates of future effective demand, business men tended to make decisions on the basis of price changes. Thus when effective demand was beginning to level off but prices were still rising, business men enlarged their inventories in the hope of selling at a greater profit and avoiding paying higher prices for stocks in the future. When prices began to fall business men reversed this tendency and, even though aggregate demand may not have fallen, they "unloaded" inventories and postponed buying in the hope of losing as little as possible from falling prices.

(2) Although the lifting of price controls resulted in a rapid increase in prices, many producers of primary industrial raw materials, particularly in the steel and metals industries, still did not charge all that the traffic would bear. Under these conditions demand was greater than supply, and orders could not be filled rapidly. The flow of raw materials and semi-finished goods among manufacturers was slow, uneven and uncertain. Under these conditions producers sought to keep unusually large inventories in order to avoid the risk of being caught without adequate supplies. As prices began to decline, however, supply and demand again became adjusted to each other and orders began to be filled more rapidly. Under these conditions it was no longer necessary to keep large stocks of goods as protection against the possibility of non-availability. Business found itself with inventories which were unnecessarily large and proceeded to reduce them.

This accumulation and subsequent liquidation of inventories appears to have been the factor primarily responsible for the recession of 1949 in the United States. Although investment in durable goods and construction also fell by about \$2,000 million between the last quarter of 1948 and the first quarter of 1949, this decline in durable goods investment was partly matched by an increase in Government spending of \$1,400 million. These increased Government outlays were mainly for military expenditures, Marshall Plan aid, and increased price support payments to farmers. The changed inventory policy, on the other hand, resulted in a \$5,000 million decline in inventory investment during the first quarter of 1949. In the same period, gross national product fell by about \$10,000 million. (As investment falls, gross national product normally falls by a greater absolute amount because of the depressing repercussions on consumption of the reduced volume of investment.) Unemployment increased by more than one million from the average of the previous quarter. Industrial production, as measured by the Federal Reserve Board Index (taken in quarterly averages), fell from 194 to 186.

By June 1949, non-agricultural employment again turned upwards and by August industrial production began to increase. During August and September 1949, unemployment also began to decline. During the remainder of 1949 there was considerable unemployment of a temporary character owing to stoppages in the coal and steel industries, but unemployment in other sectors of the economy continued to fall. To a large extent this recovery was brought about by two factors. Firstly, the liquidation of inventories tended to fall off and—in some

industries—there was a reversal of business policy towards accumulation of inventories. Secondly, consumers' expenditure tended to remain at a high level. Moreover, purchasing power was increased by the fall in prices which occurred during this period.

### SUMMARY

The experience of these four countries indicates that the unemployment that exists today differs in many respects from the unemployment that prevailed throughout much of the decade preceding the war. Since the war the United States, Italy and the German Bizone have suffered inventory recessions and there have been declines in the volume of construction in some countries. But these temporary declines in demand did not result in the sustained deficiency in aggregate spending that characterised the early 1930's.

The trend in national income since the end of the second world war in almost all countries has been steadily upward, with only very minor and short-lived reverses. While national incomes have been rising, however, there have been changes in the proportions of aggregate demand directed to particular industries and corresponding changes in the level of employment in these industries. Frictional unemployment has consequently developed at different times in particular industries or places and has continued until the workers concerned were absorbed into new jobs.

After the end of the war, both consumer and investment goods of almost all kinds were urgently needed to replace those that had been worn out or destroyed during the war. Production in some lines could be expanded much more quickly than in others. In the United States, for example, replacement demands for clothing were met much sooner than those for durable goods. As supply became adjusted to demand in one industry after another, it was necessary for workers to be shifted from one industry to another. In this process, which still continues, time is lost between jobs.

The shifting pattern of aggregate demand has also been felt in international trade. The countries that recovered most rapidly from the war now face increasing competition from other nations that have in turn been able to expand their export industries. In Belgium, for example, some industries have found it necessary to effect relatively severe economies in labour costs, including reductions in the numbers employed, in order to maintain their position in international trade.

Although aggregate demand has been well maintained since the end of the second world war, unemployment due to capital shortage—unemployment often accompanied by underemployment—has become an increasingly severe problem in certain countries. The less developed regions of southern Italy, and probably the German Bizone, have experienced severe unemployment and underemployment owing to a scarcity of capital and resources in relation to population

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## PART II

### ACTION AGAINST UNEMPLOYMENT

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## CHAPTER III

### UNEMPLOYMENT BENEFITS AND ALLOWANCES

From a national and international viewpoint, unemployment represents a waste of productive resources. Idle manpower means that production and income are lower than they would be if the entire labour force were at work. From the human standpoint—that of the individual worker—unemployment means something more personal and catastrophic. It marks a complete stoppage of his regular income and, unless there is a substitute for this, will usually mean a drastic reduction in his standard of living and that of all persons who are dependent upon him. In addition, it can seriously impair the morale of the worker by making him feel that society no longer has need of his services.

Apart from or in addition to economic measures for preventing unemployment or shortening its duration, therefore, there is need for social measures which will deal with the personal economic problem of each individual worker who loses his job. The latter measures must be directed towards replacement of at least part of the wage loss which the worker suffers or, in other words, towards maintenance of at least a part of the income flow that he previously enjoyed. So long as unemployment continues to exist, modern civilised nations must accept responsibility for plans which ease the impact of unemployment on those who produce its goods and services.

The technique of unemployment insurance has been found in modern times to be the most effective method by which a country can discharge this responsibility. Such schemes are now found in a considerable number of countries. The following pages present a comparative survey of national laws concerning unemployment insurance.

More than a score of the countries belonging to the International Labour Organisation had on their statute books in mid-1949 schemes for payment of benefits or allowances in case of involuntary unemployment. Two thirds of these countries are located on the continent of Europe and include the following. Austria,

Belgium, Bulgaria, Czechoslovakia, Denmark, Finland, France, Greece, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Sweden and Switzerland. The United Kingdom and Ireland complete the list of European countries that have enacted unemployment insurance measures. Two of the remaining countries are in North America—Canada and the United States, where each of the 48 States has its own scheme, and one scheme, that of Uruguay, is in South America. Two more are found in the Pacific area, in Australia and New Zealand, and one scheme, that of the Union of South Africa, exists in Africa.

### SCOPE OF PROTECTION

Most of the countries mentioned provide for compulsory application of their unemployment insurance laws. A few of them, such as Denmark and Sweden, have systems under which affiliation by the parties concerned is voluntary, a Bill is pending in Sweden, however, which would establish compulsory unemployment insurance there, the provisions of this Bill are briefly summarised at the end of this chapter. The benefit provisions of the Polish scheme are not operative at present.

As regards the types of workers coming within the purview of the various schemes, some divergence of practice among the various countries may be noted, though perhaps less than in the case of other branches of social insurance. Only two countries, Australia and New Zealand, provide for payment of benefits in certain circumstances to persons other than employees as well as to the latter, in these two countries, allowances are payable in case of unemployment to any otherwise qualified resident of insufficient private means. The remaining countries may be divided into two groups of approximately equal number, according to whether (*a*) the coverage of their plan is restricted to all or specified categories of urban employees—that is, excluding workers in agriculture—or (*b*) the scheme applies without regard to whether the employment concerned is agricultural or non-agricultural.

The schemes of Austria, Belgium, Bulgaria, Czechoslovakia, France, Sweden and the United Kingdom are open to employees in general without major occupational exception. The United Kingdom has, in addition, a scheme under which assistance is payable to unemployed persons of insufficient means. Finland also covers employees in general except that they are required also to be nationals of the country. The Danish and Norwegian schemes



are open, in general, to employees of small private means, while that of the Union of South Africa applies to employees with small earnings excluding specified classes of Natives. The new Netherlands scheme is to apply to all employees whose remuneration does not exceed a specified annual amount.

The unemployment insurance schemes in effect in Greece, Poland, Switzerland, the United States and Uruguay are limited, in contrast, mainly to urban employees. They apply mainly to employment in the economic branches of industry and commerce, agriculture is excluded. In Italy the scheme covers all urban wage earners and urban salaried employees of small earnings. The Irish scheme similarly covers all manual employees in urban employment together with non-manual employees of small means who are working in such employment, in addition, it provides for the payment of assistance to gainfully occupied persons of insufficient private means. The scope of the Canadian unemployment insurance scheme is restricted principally to urban employees with small earnings. The Luxembourg scheme applies only to urban workers who have insufficient private means.

The scheme in Portugal applies to employees in occupations covered by collective agreements and those in specified professions or activities.

#### DEFINITION OF CONTINGENCY

The contingency customarily dealt with in the case of unemployment insurance may be described as wage loss resulting from lack of employment. All the laws contain provisions of one type or another which undertake to define this contingency in more or less detail. It is not feasible here to make an inter-country comparison in respect of these provisions, but a general summary of them is given. There is a great deal of similarity in the requirements laid down in the various laws on this score.

Most countries require that claimants for unemployment benefits must be involuntarily unemployed, though some expressly authorise the payment of benefits in cases where the worker voluntarily leaves his employment for good reason. The majority of laws also state specifically that applicants for benefits must be "capable of work" and almost as frequently that they must in addition be "available for work". These requirements presumably are for the purpose of ensuring that beneficiaries are currently in the labour force, rather than being incapacitated or unavailable for work for some other reason.

It is generally expressly required also that claimants must be seeking work or be unable to obtain employment, or it must be established that there is no suitable employment available. The existence of these conditions must usually be demonstrated, in practice, by registration at an employment exchange, which can verify the non-availability of employment at the same time that benefits are paid. Some laws deal with the same matter in other language by requiring that applicants for benefit must be willing to accept suitable work. The criteria by reference to which the suitability of work is to be determined are in some cases set forth in the law. Other matters dealt with at greater or lesser length in the statutes of some countries concern the status of individuals who may be unemployed as the result of misconduct or industrial disputes.

#### QUALIFYING PERIOD

Most of the schemes require workers to have fulfilled some kind of minimum period of qualification before they can be considered eligible to claim unemployment benefits. The objective of such provisions would appear to be to limit the payment of benefits to those workers who have actually been for at least a minimum length of time in the labour force, and who suffer a genuine loss of wages when they are unable to find employment. Three exceptions to this general practice, however, may be noted. Belgium does not prescribe any specific minimum period of employment as a condition for receipt of unemployment allowances, but requires that claimants must, as a rule, have been employed. In Australia and New Zealand, where allowances in respect of unemployment are payable to any adult of insufficient private means, the only requirement at all relevant is that claimants must have been resident in the country for at least one year.

In the remaining countries, the minimum time span required for qualification is variously expressed in terms of number of contributions, weeks of employment, weeks of insurance or aggregate prior earnings, depending upon the exact nature of the benefit and contribution provisions of each scheme. All the provisions have the common purpose of prescribing a minimum length of time during which workers must have been employed within the confines of the scheme before they file a claim. Apart from the differences in the manner of expressing the qualifying conditions, the provisions may be grouped into one of two categories depending

upon whether or not they require that the minimum conditions have been met within a relatively recent period

About two thirds of the schemes attach a recency requirement in connection with their qualifying period. Thus, Sweden requires a showing of at least 26 contribution weeks during the 12 months preceding each claim. An almost identical requirement is also laid down by Bulgaria. France requires applicants to have been employed during the six months preceding unemployment. Denmark specifies that there must be at least 12 months of contribution and also 39 weeks of employment, of which at least 26 must have occurred in the preceding 18 months. The Netherlands scheme requires 156 days of employment in one branch of industry during the preceding year to qualify for a so-called waiting allowance, for claimants not fulfilling this condition, an unemployment benefit proper is payable if they have been employed for at least 78 days in the past year.

Under the Canadian scheme, claimants must show at least 180 days of contribution during the two years preceding the benefit year concerned. In Luxembourg, 200 days of work in the preceding 12 months are necessary to qualify. The United Kingdom requires that a total of 26 weekly contributions have been paid since the first entry into insurance and, in addition, that 50 weekly contributions have been paid or credited (for example, during unemployment or incapacity) in the course of the preceding contribution year. Norway prescribes a total of 45 weeks of contribution in the course of the last preceding four years. Finally, all but a few of the State schemes in the United States make eligibility for benefits conditional upon the receipt of minimum aggregate amounts of wages during the preceding base year; these minima are expressed either as a multiple of the potential weekly allowance of each claimant or as flat qualifying amounts. Several States, in contrast, require claimants to have had a minimum number of weeks of employment, during each of which at least a specified minimum amount of wages has been earned.

Comparable recency requirements are not present in the laws of about one third of the countries. Ireland requires only the payment of 12 weekly contributions. Only 13 weeks of contribution are necessary under the South African law. In Finland, 26 weeks of contribution are needed to qualify. The various schemes operating in the Swiss cantons usually specify at least 180 days of insurance. Greece requires that claimants show 270 days of urban employment, except that this requirement is waived

entirely for persons who were employed at the time when the scheme was established in 1945. In Portugal, 26 weeks of contribution are needed to qualify. The qualifying period in Italy is two years of insurance. Uruguay requires that beneficiaries have had 10 to 20 years of service and also that they be under 40 years of age.

#### WAITING PERIOD

Virtually all schemes provide for the lapse of a brief period of time after workers first become unemployed before they become eligible to receive benefits. Such provisions serve, among other things, to lighten somewhat the administrative and financial burden that might otherwise be laid on the scheme by short but possibly frequent spells of unemployment. Moreover, the brief time thus allowed may be sufficient to permit the employment exchange to place the newly unemployed worker in another job.

There is substantial variation in the length of the waiting period prescribed in different national laws. In Belgium there is no waiting period, but allowances are not payable for single days of unemployment. In Switzerland there is a waiting period of one day, in Luxembourg and the United Kingdom three days and in France five days. Australia, Ireland, Norway and Sweden prescribe a six-day waiting period. A period of seven days is specified in Italy, New Zealand, the Union of South Africa and under most of the State schemes in the United States (a small minority require two weeks). In Bulgaria the period is eight days and in Canada nine days. The length of the waiting period in Denmark and Finland varies with individual funds, the range in the former country being from six to 15 days and in the latter from six to 18 days. Greece provides for a five-day period in the case of wage earners and a 10-day period in the case of unemployed salaried workers.

Under some schemes, the waiting period must be observed for each separate spell of unemployment. Under the others, the non-compensated days of unemployment which form a part of the waiting period are cumulated, so that the required number of waiting days need be fulfilled only once during a specified period, whether it be a week, a quarter or a benefit year. Under some schemes also the waiting days served for unemployment are cumulated with those served for sickness benefit. It should also be noted that some laws provide for retroactive compensation in respect of days in the waiting period, if unemployment persists.

for longer than a minimum specified time. This is the case, for example, in the United Kingdom if a worker is unemployed for a total of at least 12 days during a quarter, and in the Union of South Africa if unemployment continues for more than two weeks

### RATE OF BENEFIT

The formulas used in different countries to calculate the amount of the allowance payable to individual recipients of unemployment benefits take diverse forms. In general, however, it is possible to classify schemes in two groups (*a*) those that prescribe flat rates for all workers of specified characteristics, and (*b*) those in which benefits are graduated in relation to past wages or contributions. In schemes coming under (*b*), there is usually a wage ceiling above which wages are not taken into account in computing benefit amounts. The legislation falling into each of these two groups is summarised below, but no attempt is made to indicate actual monetary amounts in view of the difficulty of comparing them when they are expressed in different currencies.

Nine schemes may first be distinguished which use the flat-rate principle. It will be noted that under the majority of these schemes, there is still differentiation of benefits on the basis of age, marital status, family responsibilities, or some other factor.

Australia provides for allowances at flat rates which are lower for single persons under 21 than for others, the allowances are subject to reduction for income received by the recipient in excess of a prescribed amount. A similar arrangement obtains in New Zealand, where flat sums are payable which are lower for youths without dependants, but a supplement is payable in respect of a dependent wife, a deduction may also be made in respect of income or property belonging to a beneficiary or his wife. France also provides flat allowances which are subject to reduction if the sum of allowances, supplements and other household resources exceeds a prescribed level, the allowances are varied only according to place of residence and the presence or absence of an adult dependant. The total allowance may not exceed two thirds of previous wages, and allowances are payable for partial unemployment.

Belgium has a scale of flat allowances which provides for variation of rates depending upon whether the worker is skilled or unskilled and according to the claimant's family responsibilities, residence, age, and sex. In Ireland, the flat benefits payable are varied by sex, age, and the presence or absence of a dependant.

Flat-rate allowances granted in Luxembourg are graduated according to age, and dependants' supplements are also paid, income derived from sources other than work which exceeds 25 per cent of the benefit is deducted. Norway varies its allowances only in relation to the number of dependants, but provides that the total payment may not exceed 90 per cent of daily earnings. A similar provision exists in Sweden, where flat-rate allowances are supplemented by allowances for a wife and children, with a limit on the total of 90 per cent of the basic wage of the recipient. The United Kingdom varies its allowances by number of dependants and age.

Among the countries in which allowances are related to previous earnings, Bulgaria provides for allowances which may not exceed 66 $\frac{2}{3}$  per cent of basic wages. In Greece, the allowance for wage earners is 30 per cent, and that for salaried employees 40 per cent, of the minimum wage or salary for the occupational category concerned, for some workers, however, the corresponding proportions are 40 and 50 per cent. The Netherlands plan calls for payment of an initial waiting allowance for unemployed persons who may be considered to be still connected with a particular branch of industry, and thereafter an unemployment benefit proper for those whose unemployment has lasted for a period of time and who may be considered to belong to the general labour reserve. These allowances are to equal, as a rule, 70 per cent of wages for beneficiaries over 18 who do not live with their families, 60 per cent. for other single persons, and 80 per cent for persons who are married and maintain a family. Allowances for single persons under the Swiss schemes may not exceed 55 per cent of basic earnings, supplements, partly on the basis of percentage of wages and partly at flat rates, are added for dependants, subject to an over-all maximum of 85 per cent of earnings. Basic earnings as well as dependants' supplements are higher for urban than for rural districts.

The Union of South Africa varies the benefits payable in accordance with the wage class into which the past wages of claimants fall. Weekly benefits under most of the State schemes in the United States are between 38 and 50 per cent of the highest quarterly earnings of the claimant in the preceding year, the other schemes relate benefit amounts to annual or weekly wages. Supplements for dependants are provided in only a very few States.

In Canada and Italy also the amount of benefit is proportional to past contributions. In Canada daily allowances for single

persons are equal to 34 times the average of their last 180 daily contributions, and these in turn are scaled with wages according to wage classes; a higher rate is payable when the beneficiary has dependants. In Italy, benefits vary in accordance with the total amount of contributions paid in respect of the claimant during the 12 months preceding his unemployment.

In Denmark and Finland the size of unemployment benefits is fixed by the individual funds, but within certain statutory limits. Denmark prescribes maximum allowances which vary with marital status and with changes in the cost-of-living index. Supplements may be paid in respect of children, and rental allowances are payable to unemployed persons with dependants after 25 days of unemployment, the total of all allowances and supplements may not exceed  $66\frac{2}{3}$  per cent of earnings in the occupation concerned in the case of single persons (80 per cent in the case of persons with dependants). The allowances in Finland may not exceed 50 per cent of the usual wages for single persons, or  $66\frac{2}{3}$  per cent for persons having dependants.

Czechoslovakia pays unemployment allowances and also the costs of authorised transfers of employees, of vocational training and of tools; it also makes up differences in wages or part thereof as compared with previous employment and provides family subsidies when employees are separated from their family. In Uruguay, unemployment grants are related to potential old-age allowances of applicants, amounting to from 2 to 3 per cent of the latter for each year of service.

A number of the laws, either expressly or in general language, prohibit the receipt of an unemployment benefit in cases where the claimant is already receiving another social insurance benefit. Some laws also contain provisions for deduction of concurrent earnings above specified amounts, which have the effect of providing partial benefits for part-time unemployment.

#### DURATION OF BENEFITS

Most of the unemployment insurance schemes place a maximum limit on the length of the period during which an unemployed worker may receive insurance benefit. These limits, which are rarely as much as one year and are generally for six months or less, reflect an intention to limit the scope of the protection afforded to short-term unemployment. The implications of such a policy for the cost of unemployment insurance are obvious.

Six countries do not specifically limit the duration of allowances. The countries are Australia, France, New Zealand—where allowances are payable only to recipients of insufficient private means—Belgium, Canada and Czechoslovakia.

All the other schemes expressly impose a legal maximum to the duration of benefits. These limits, briefly summarised below, relate usually to the cumulative number of days during a calendar or benefit year in respect of which benefits may be paid.

Allowances are payable in Bulgaria for 12 weeks in each calendar year. Under the Swiss schemes, the limit is fixed at 90 days in a calendar year. Denmark also prescribes that its funds may provide for a maximum duration of not less than 90 days in a benefit year. A comparable limit of 15 weeks obtains in Norway, which also limits the payment of benefits to one third of the number of weeks of contribution during the four preceding years minus benefit weeks in the same period. Finland, in contrast, specifies a maximum duration of 120 days in 12 months.

In the United States, the potential duration of benefits under the State schemes is scaled to previous aggregate wages or employment in most of the States, a minority provide a uniform potential duration for all beneficiaries. The absolute maximum limit under about half of the State laws is 20 weeks, under the others it ranges from 12 to 26 weeks. The potential duration of waiting allowances in the Netherlands must be at least 48 days in a benefit year, while that of unemployment benefits is 78 days.

Limits of about six months are found in five countries: the Union of South Africa specifies 26 weeks in a period of one year, Sweden provides for not more than 156 days in 12 months, in Ireland, the limit prescribed is 26 weeks in a benefit year, in Luxembourg it is 26 weeks during a 12-month period; Portugal restricts payments to six months in one year and also to 10 months in two years.

Somewhat longer limits are found in Italy, the United Kingdom and Greece. Italy provides that benefits may be paid for not more than 180 days. In the United Kingdom, allowances are normally payable up to 30 weeks, but this limit is extended to 52 weeks if the claimant has had at least five years of insurance, in addition, local tribunals may recommend extension of the benefit of a particular claimant for a longer period. Allowances are normally payable in Greece for nine months, but in exceptional cases they may be limited to three months, these maxima may be doubled by administrative decree.



## ORGANISATION

The administration of unemployment insurance is closely linked in some countries, including Australia, Bulgaria, Italy, New Zealand, and the United Kingdom, with that of other branches of social insurance. Other countries, including Belgium and Austria, have provided for the collection of unemployment insurance contributions through the same mechanism as is used for other schemes. In a number of the remaining countries, in contrast, unemployment insurance is organised separately from other programmes and has a somewhat different administrative structure.

Another important difference among countries in the organisation of unemployment insurance is found in the relation of the administering agency to the Government. Under the schemes of some countries, including Australia, Austria, Canada, Czechoslovakia, Ireland, Luxembourg, New Zealand, the Union of South Africa, the United Kingdom and the 48 State schemes operating in the United States, benefits are administered by Government departments which usually form a part of the Ministry of Labour or Ministry of Social Welfare.

In a number of other countries, in contrast, administration is to some extent delegated to self-governing institutions which usually operate, however, under the supervision of a Minister. The governing bodies of such institutions commonly include representatives of employees and employers. Thus, in Belgium the provisional unemployment fund is managed by representatives of employers and employees. The Danish plan is administered through semi-independent voluntary unemployment societies, and the schemes of Finland and Sweden operate through trade union insurance funds. The new Netherlands scheme is to be administered by occupational organisations established for each branch of industry, through committees composed of an equal number of employee and employer representatives. In Switzerland, the administering agencies include cantonal and municipal public funds and also, in some parts of the country, recognised trade union or joint funds.

The local administration of unemployment benefits in the majority of countries is closely linked with the placement function. Benefits in many cases are paid through the local employment office at which the beneficiary is required to register. Provision is usually made for some type of appeal in case of unfavourable decisions on benefit claims by the original adjudicating authority.

## SOURCES OF REVENUE

The main differences among countries in the methods used for financing unemployment insurance plans lie in the sources from which revenues are derived for financing benefits and in the methods used for computing contributions payable by insured workers or their employers. National practice as regards these two matters usually follows closely the principles used in financing other branches of social insurance.

The most commonly used procedure for financing unemployment insurance is the tripartite method under which contributions are derived from insured persons, their employers and the State. When this procedure is followed, the contribution of the employer is usually the same as that of the worker. On the other hand, there is considerable diversity from country to country in the proportion of total costs covered by the State subsidy. The countries in which unemployment insurance is financed through the joint contributions of workers, employers and the State include Belgium, Canada, Czechoslovakia, Denmark, Ireland, New Zealand, Norway, the Union of South Africa and the United Kingdom. The proportions of total revenues represented by the Government contribution in Canada is one sixth, in Czechoslovakia one third, in Ireland two ninths, and in the Union of South Africa 20-43 per cent. In certain countries, such as New Zealand and the United Kingdom, each party makes a single contribution to a central fund from which benefits for risks other than unemployment are also paid.

Under the Netherlands plan, waiting allowances are to be financed solely out of employer and employee contributions, while the cost of unemployment benefits is to be shared by employers, employees and the State. It is expected that the State will contribute about one third of the cost of unemployment benefits.

Three other countries, Australia, Austria and Portugal, also require both employees and employers to participate in the financing of benefits. In these countries, however, there is no State subsidy to the unemployment scheme.

Five countries require employers to contribute to the cost of unemployment benefits but require no corresponding employee contribution. Employer payments constitute the sole primary source of revenue in Greece, Italy and Poland and also in the case of the State schemes in the United States (with the exception of two States). In Bulgaria there is an employer contribution and

the State also subsidises the general social insurance scheme of which unemployment insurance is a part.

The principle of financing unemployment insurance through a combination of employee contributions and State subsidies, without payment by employers, is followed in two Scandinavian countries and to some extent in Switzerland. This division of costs is applied in Finland and Sweden, the Government contribution in Sweden usually averages between 50 and 60 per cent. of total costs. In Switzerland, where employees contribute and funds are subsidised by the Federal, cantonal and municipal Governments, employers contribute only in the case of the so-called joint funds.

In France and Luxembourg, the State and municipalities pay the entire cost of unemployment allowances.

#### METHOD OF COMPUTING CONTRIBUTIONS

Two very different procedures are followed under the various schemes in determining the contribution liability of insured employees and employers. In the more commonly used method the contribution liability is expressed as a constant percentage of wages, so that the contribution of an employee is graduated with his wages and that of the employer is graduated with his payroll. Where such a procedure is followed, a wage ceiling is usually fixed and no contribution is payable in respect of wages above this ceiling. Systems of this general type are found in Austria, Belgium, Czechoslovakia, Greece, Italy, the Netherlands, Poland and the United States.

Some countries, including Canada, Norway and the Union of South Africa, use essentially the same policy of graduating contributions in relation to wages. Instead of expressing contributions as a fixed percentage of wages, however, they specify the absolute contribution amounts payable for a number of different wage classes. Graduated contributions are also payable under the Australian and New Zealand social security schemes, of which unemployment benefits are a part, but a base somewhat different from wages is used. In Australia, persons protected pay a special social security tax on their net taxable income, while employers pay a contribution at a fixed rate on their payroll in excess of a prescribed amount. In New Zealand, all persons pay a tax at a flat rate on their gross income, and employers pay a tax at a flat rate on their gross payroll. In both countries, the tax on employers is a tax at the same rate or

The other main procedure used is that of flat contributions. In this case, contribution amounts are uniform for all workers of the same characteristics. This practice is followed in Denmark, Ireland, Portugal, Sweden and the United Kingdom. In Denmark, contributions are uniform within each unemployment society but vary somewhat in different societies. Ireland and the United Kingdom vary contributions only by sex and between adults and youths. Contributions in Portugal are fixed by collective agreements or by regulations of occupational funds. Sweden varies its contributions according to the rate of the allowance for which the worker is insured and according to occupation.

Employee contributions in Switzerland are payable in some cases at flat rates and in others as a percentage of earnings, according to the risk and the canton, municipality or fund concerned.

#### RATES OF CONTRIBUTION

It is not possible to make a comprehensive comparison of rates of contribution since, in countries using wage classes or the flat-rate method, only absolute amounts are prescribed in the law and these are not readily comparable from country to country. Moreover, in some countries a single contribution is made to the general social insurance scheme as a whole, and that portion of the contribution applying to unemployment insurance is not easily segregable. Nevertheless, illustrative figures for some countries may be given.

In Austria, the total of employer and employee contribution rates has been 3 per cent of wages. In Belgium, the rate is 1 per cent each for employees and for employers. In Bulgaria the rate for employers is 1 per cent. In Czechoslovakia, the rate for employees, employers and the State is 0.5 per cent each, the State contributing only when its funds are required. In Greece, the rate for employers covered by the main fund is 1 per cent. The employers' rate in Italy is  $4\frac{3}{4}$  per cent.

Employer contribution rates in the United States are varied for each employer according to the amount of benefits paid to his employees and the status of his individual reserve account, the national average contribution rate in 1948 was 1.2 per cent, while the averages for individual States ranged from 0.3 to 2.1 per cent. It is expected that the average contribution rate for employees and employers under the Netherlands scheme will be about 2 per cent of wages each, contributions in respect of waiting allowances will vary from industry to industry according to the

unemployment risk, but those for unemployment benefits will be the same for all branches

### SWEDISH UNEMPLOYMENT INSURANCE BILL

A Bill was pending in Sweden during 1949 which proposed the introduction of a compulsory system of unemployment insurance in that country. Under this Bill the existing scheme of voluntary insurance would be maintained, more or less on its previous basis, for the purpose of providing additional benefits.

The Bill proposes to make unemployment insurance compulsory up to the age of 67 for all persons who normally work for gain (including some self-employed workers). Self-employed persons to be covered must have, as a rule, a definite place of work and must be performing the kind of work that an employee might perform.

To qualify for benefits, unemployed claimants must be available for and capable of work in employment, and must have applied unsuccessfully to the employment service for a job. Beneficiaries must have worked for at least 20 weeks in the 12 months preceding unemployment; specified numbers of weeks of maternity leave and of sickness may be counted toward fulfilment of this condition. The waiting period required is six days within the preceding three weeks.

A daily benefit would be payable for six days a week at a flat rate. Flat-rate supplements would also be payable in respect of dependants, equivalent to 50 per cent of the daily benefit for a wife and 15 per cent thereof for each child. As regards partial unemployment, benefits would be payable if more than two days were lost out of seven. The maximum potential duration of benefits authorised by the Bill is 156 days in 12 months.

The compulsory insurance scheme would be administered by a division of the Ministry of Labour. An advisory council would be established, composed of representatives of employers, voluntary unemployment insurance funds and the State. Regional and local committees, appointed by the governmental units concerned, would also be set up. The payment of benefits would be in the hands of the local committees, with claimants having the right of appeal to the regional committee and then to the Ministry.

The Bill provides that employers as such would contribute one third of the total cost of unemployment benefits. Insured persons would pay a contribution which would be added to their

general social insurance contribution toward pensions, sickness and maternity. The State would pay the remaining cost of benefits as well as administrative expenses.

### MIGRANTS' RIGHTS TO BENEFITS

If workers employed in a foreign country are excluded from unemployment insurance coverage in that country by nationality requirements or by residence conditions disqualifying them from benefit if they leave the country after becoming unemployed, they may be less willing to work abroad in the first place. Such restraints on worker migration impair the international mobility of labour, which is an important element in the maintenance of high levels of employment throughout the world. Aliens who become unemployed in a foreign country should be able to move to places where manpower shortages rather than surpluses exist. It is desirable not only on humanitarian but also on economic grounds, therefore, that arrangements be established under which migrant workers are protected by unemployment insurance regardless of nationality and even though they abandon residence in the country where their rights are earned. Such arrangements can be effectuated through reciprocity agreements concluded among the nations concerned.

The maintenance of migrants' benefit rights, which in general is desirable as regards most types of social security benefits, presents special problems in the case of unemployment insurance. Unemployment beneficiaries must always be regularly "exposed to work" on a systematic basis, in order that they shall not receive benefits when jobs suitable for them are actually available. But if claimants leave the country where their rights have been earned, that country obviously can no longer apply its usual procedures.

There seems no reason in principle, however, why inter-country arrangements cannot be developed to surmount this difficulty. One possible procedure is to transfer the alien's contributions and rights back to his homeland or elsewhere, and to treat his foreign employment for benefit purposes as if it had been under the scheme of the new country of residence. A different approach is to permit claimants to register for work with an employment exchange of the country to which they have moved, with the latter, acting as agent for the country in which the rights were earned, making the usual determination of whether or not suitable work is available. If not, the agent scheme may pay the periodical allowances due

and then be reimbursed later by the scheme under which the rights were originally acquired. A prerequisite for the success of such an arrangement, naturally, is the existence of an effective employment service in the agent country. Arrangements of this sort would, of course, need to be surrounded with various safeguards, but if this were once done they should work fairly smoothly.

It is of interest in this connection to note a number of recently concluded reciprocity agreements which deal with unemployment benefits among other matters. A treaty between the Belgian and Netherlands Governments of 29 August 1947 provides that nationals of one contracting country who reside in the other country may qualify for unemployment allowances granted by the public authorities of their country of residence. Great Britain and Ireland concluded on 24 March 1949 an agreement which permits persons qualified for unemployment benefit in one country to receive benefit, in certain circumstances, while resident in the other, provision is made for transfers of funds in respect of contributions credited. A Belgo-Italian treaty of 1 May 1948 provides that workers from one country who are employed in the other are entitled to unemployment benefit under the latter's legislation if they have fulfilled the qualifying period prescribed thereunder or the qualifying conditions prescribed under the legislation of the first country.

An agreement concluded between the Governments of Italy and Sweden on 18 April 1947 deals with the admission of Italian workers employed in Sweden to unemployment insurance, such workers must affiliate themselves with Swedish trade union organisations and thus become automatically insured. A social insurance treaty between Czechoslovakia and Poland of 5 April 1948 deals with payment by one State of allowances from insurance and other provision against unemployment to nationals of the other State while they are resident in the former State. A labour treaty between Switzerland and France, signed on 1 August 1946, states that workers of either country who have been admitted for residence and become unemployed in the other country shall receive the same benefits as are enjoyed by nationals of the country of residence.

Australia and New Zealand concluded on 5 April 1949 an agreement covering unemployment as well as other social security benefits, which provides for crediting residence in either country towards eligibility to benefit, in case of permanent change of residence, and for the making of payments on an agency basis in

case of temporary residence changes, with half-yearly settlement of the reimbursements due to each country.

A 1946 agreement between Danish and Swedish unemployment funds provides that a member of a fund in one country is entitled to transfer his claims for insurance benefits to a fund in the other country. Norway and Sweden also concluded an agreement on unemployment provisions on 13 December 1948.

An interesting extension of the principle of bilateral social security agreements occurred on 7 November 1949 when the five nations which signed the Brussels Treaty (France, the United Kingdom, Belgium, the Netherlands and Luxembourg) signed a new multilateral Convention which enables any national of the five countries to benefit from any bilateral social security agreement reached between two of them. The Convention also deals with cases where a national of one country has been insured in employment in three or more countries.

It is apparent from the above that considerable attention has already been given to the problem of preserving the unemployment benefit rights of migrants. Further expansion in the number and scope of such agreements is undoubtedly desirable.

### CONCLUSIONS

The above comparative survey of schemes for the payment of benefits or allowances in case of unemployment indicates that a majority of the industrialised nations of the world already have statutory provisions which provide for such schemes. A large part of the legislation concerning unemployment insurance, however, dates back to before the war. With few exceptions, little fundamentally new legislation has been enacted since the war or even during the past decade. This fact is undoubtedly a reflection of the high post-war levels of employment that have prevailed during reconstruction and as scarcities were being met, and of the world-wide determination after the war to minimise unemployment as a deliberate national policy.

It is also apparent from the survey that existing legislation for the alleviation of the effects of unemployment still leaves a good deal to be desired. If, despite the high hopes for abolition of mass unemployment and the various measures taken towards this end, the number of unemployed should be found to be growing, various shortcomings of present legislation could have serious consequences.



In the first place, there are still quite a number of countries in which no statutory scheme of unemployment insurance exists. Moreover, in those countries having schemes, the scope of coverage is often limited in such a way that major categories of workers lack the protection afforded to their fellow workers in other branches. This is frequently true, for example, of agricultural employees, skilled workers at the higher-paid levels, and some classes of salaried employees. In general, it is desirable that application of the unemployment insurance principle be on as broad a basis as possible.

The period of eligibility required to establish qualification for benefit appears in some cases to be unduly long. If an efficient employment service exists for testing the genuineness of unemployment, it seems questionable whether a period of six months is necessary to demonstrate regularity of membership of the labour force and reality of wage loss. Similarly, waiting-period requirements may be unnecessarily restrictive in some cases and may throw more of the economic burden of unemployment on the worker himself than is justified on grounds either of logic or of administrative convenience.

Perhaps the most serious shortcomings of existing provisions concern levels of benefits provided and their duration. Where allowances are payable on a flat-rate basis, it is of vital importance that they be geared realistically to present-day levels of wages and prices rather than to those of earlier years. Similarly, where benefits are varied with earnings of individual claimants, the maxima fixed for weekly benefit amounts, for wages considered in computing benefits, or for wage classes, should likewise be adjusted to take account of recent changes in wage rates and in prices. If this is not done, the flat or graduated benefits payable may prove to equal only a minor fraction of previous wages, perhaps only one fifth or one fourth, and thus will fall far short of tiding over the average worker and his family between jobs. It would nearly always seem a desirable principle also to provide for dependants' allowances, unless a comprehensive family allowance scheme is operating. As regards duration, restrictive limits on the length of the period during which benefits may be received may serve to remove completely a substantial segment of the unemployment problem from the purview of the benefit scheme. Wherever possible, it would appear desirable, as a general rule, to permit payment of benefits to individual recipients for a potential period of at least six months.

To ensure that the payment of unemployment benefit is always subordinated to the primary objective of restoring workers to employment, it is desirable that the organisation of unemployment insurance in each country be closely linked with that of the employment service. Finally, the aggregate resources available to each scheme should be sufficient to ensure the payment of adequate benefits to all claimants for whom jobs cannot be found. The manner in which the burden of providing these resources is allocated among workers themselves, employers and the State will depend upon the national policy adopted in each country. In any case, it is desirable to make some advance financial provision when times are good, in order that the full burden of heavy benefit outlays in periods of rising unemployment does not fall on contributors at the very time when their economic position may be the weakest.

In whatever respects national legislation concerning unemployment insurance needs strengthening, it is important that it be done before the problem of unemployment becomes acute. For one thing, it is difficult to amend highly technical social insurance provisions at short notice, and hurried improvisations under the pressure of events frequently lead to unsound results. Moreover, administrative problems in establishing an effective relationship between unemployment insurance and placement services require time to be worked out, particularly in countries where such services are as yet little developed. The time is still opportune in many countries, also, to undertake the necessary advance financial provision for unemployment insurance.

There is no doubt that a well-devised system of unemployment insurance can serve as an effective device for alleviating a substantial part of the economic effects of unemployment on workers. By providing unemployed workers automatically, as a right, with a partial income for an extended period of time, unemployment insurance enables them to satisfy at least their basic requirements, without major disintegration of the family standard of living, while seeking or awaiting new employment. As contrasted with a system of public relief for the needy, it is more orderly, more dignified and more humane. In addition, it involves less strain on public budgets at the time when the general fiscal position of the State may be under greatest pressure. Since a test of the genuineness of unemployment can be built into the benefit-paying procedure, relatively large benefits may be paid under unemployment insurance without endangering the will to return to work,

the absence of necessary safeguards under a less systematic arrangement may preclude payments to the unemployed of any degree of adequacy. From an economic point of view, moreover, unemployment insurance serves to reinforce a general contra-cyclical policy, by abstracting funds from the economy at a time of high employment and inflationary pressure on prices and by adding to spendable income and stimulating consumption when opposite tendencies prevail.

While unemployment insurance has numerous advantages over a system of assistance as a method of coping with the human consequences of unemployment, especially in its earlier stages, some type of assistance scheme is desirable as a supplement to the insurance scheme. An assistance scheme is needed to provide for workers who do not manage to qualify for an insurance benefit, for those who have exhausted their rights to benefit by exceeding the maximum period of duration, and for those for whom supplementation of benefit may be required from the start, as in the case of large families.

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## CHAPTER IV

### GENERAL UNEMPLOYMENT ARISING FROM A DEFICIENCY OF AGGREGATE DEMAND

The maintenance of a level of demand sufficient to call for the employment of all available workers seeking jobs is fundamental to the solution of the problem of unemployment. Inadequate demand for goods and services causes the mass unemployment so dreaded by workers, which it is the first aim of all responsible Governments to avoid. But the maintenance of a high pressure of demand is equally essential for the reduction of frictional and seasonal unemployment. Only if there is an ample supply of alternative employment opportunities can these special problems be solved.

It is not proposed, in this report, to undertake a lengthy analysis of the problem of unemployment arising from a deficiency of demand, and of the programmes which might be developed by Governments for overcoming it. Extensive investigations in this field have been undertaken by the International Labour Office on a number of occasions<sup>1</sup>, and the International Labour Organisation has made a number of comprehensive recommendations in the field of employment policy.<sup>2</sup> Studies have been undertaken by other international organisations, notably those under the sponsorship of the Economic and Social Council of the United Nations, by Governments and by private economists and research institutes. The interest of the world was concentrated on this subject anew early in 1950 by the report on full employment prepared by a group of experts appointed by the Secretary-General of the United

<sup>1</sup> Cf. International Labour Conference, 27th Session, Paris, 1945, Report II *The Maintenance of High Levels of Employment during the Period of Industrial Rehabilitation and Reconversion* (Montreal, 1945), I.L.O. Studies and Reports, New Series, No. 3 *Public Investment and Full Employment* (Montreal, 1946), and No. 8 *Housing and Employment* (Geneva, 1948), and Building, Civil Engineering and Public Works Committee, Second Session, 1949, Report II *Instability of Employment in the Construction Industries* (I.L.O., Geneva, 1948).

<sup>2</sup> For a full discussion of I.L.O. recommendations on measures for the maintenance of full employment, see the chapter on full employment in the *Fourth Report of the International Labour Organisation to the United Nations* (Geneva, I.L.O., 1950).

Nations, and by subsequent discussions in the Economic and Employment Commission and in the Economic and Social Council.<sup>1</sup>

The problem may be stated in outline as a basis for judging the efficacy of measures proposed by Governments for maintaining full employment. The level of employment is determined by the level of production. The level of production depends on the sales receipts of producers. If full employment is to be maintained, aggregate demand in the form of expenditure on goods and services by various purchasers must be high enough to cover the total costs incurred by producers when the economy is fully employed. These costs consist of depreciation allowances required to maintain capital intact, indirect taxes levied by Governments, and wages, rent, interest and profits received by the various factors of production.

The various purchasers who make expenditures fall into several groups. The largest group consists of consumers. It is generally agreed that the volume of consumers' expenditure is determined principally by the size of consumers' incomes. So long as consumers' income is stable, the demand for goods and services for current consumption will tend to be fairly stable.

However, consumption expenditure alone will not maintain full employment in a highly developed economy. In the first place, not all the costs of production incurred become income available to consumers. Some is retained by firms in the form of depreciation allowances and undistributed profits, some is retained by Governments in the form of the surpluses earned by publicly-owned trading enterprises, direct taxes on company profits and indirect taxes; some is paid to other countries as rent, interest and profits on their investments in the country concerned. Secondly, of the income that does go to consumers, not all is spent on the goods and services produced by the country concerned. Some is spent on imported goods and services, some is paid to the Government in direct taxes and finally some is saved. On the other hand, consumers' income from production may be supplemented by receipts from the Government in the form of social security benefits.

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<sup>1</sup> UNITED NATIONS, DEPARTMENT OF ECONOMIC AFFAIRS *National and International Measures for Full Employment. Report by a Group of Experts Appointed by the Secretary-General* (New York, Dec 1949). Subsequent discussions of this report are recorded in United Nations Documents E/CN1/SR 93-105 (Economic and Employment Commission debates), E/1600 (Report of the Economic and Employment Commission), and E/SR 356-358 (debates of the Economic and Social Council). The report and subsequent discussions are summarised in the *International Labour Review*, Vol LXI, No 4, Apr 1950.

and interest on national debt. On balance, there will be a gap between total costs of production on the one hand, and consumption expenditure on the other.

Other forms of expenditure have to provide the sales receipts necessary to cover this gap between the costs incurred by producers and their sales receipts from expenditure on consumption. The chief types of non-consumption expenditure arise from private investors, from purchasers abroad and from Governments.

The important characteristic of these types of non-consumption expenditure is that they are not stable. Private investment depends on whether expected profits are high enough to justify increasing the existing stock of capital equipment. Exports depend on the level of demand in other countries. Government purchases depend on the policy decisions of Governments. The fact that the economy, if fully employed, could finance these types of expenditure is not sufficient to induce investors, foreign purchasers and Governments to undertake them.

The instability of these non-consumption expenditures has in the past caused wide fluctuations in total expenditure, and therefore in production, employment and income. If non-consumption expenditure falls below the level necessary to fill the gap between total costs and expenditure on consumption under conditions of full employment, goods will be left unsold and producers will have to dismiss employees and reduce output. The consequent decline of income received by consumers will cause a reduction of expenditure on consumption and therefore a further reduction of production and income. This cumulative contraction of employment will continue until production has fallen so low that the gap between total costs and expenditure on consumption is no greater than total non-consumption expenditure currently being undertaken.

If non-consumption expenditure then increases, more goods and services can be sold, and so producers will take on more men in order to increase output. The consequent increase of income received by consumers will bring an increase of expenditure on consumption and therefore a further increase of production and income. This progressive expansion of employment will continue until production has risen so high that the gap between total costs and expenditure on consumption is equal to non-consumption expenditure.

If non-consumption expenditure is so high that, even when the economy is fully employed, the gap between total costs and expen-

diture on consumption is smaller than the amount that investors, foreign purchasers and Governments wish to spend in the economy, then total effective demand will be greater than can be supplied by full employment output. In this situation, commodities will become scarce and businessmen, farmers and workers may seize the opportunity to press for higher incomes. If this happens, prices will rise and the economy will be involved in a continuing condition of inflation, unless rising prices choke off demand to the point where it is again equal to the available supply of goods and services.

In a country which is relatively poor because of low productivity, people will have to spend practically all their income in order to subsist. The gap between total costs and expenditure on consumption will not be large. There will therefore be few commodities available for purchase by investors, foreign purchasers and Governments. Aggregate demand is not likely to be inadequate to absorb total production, and such deficiencies as do occur can only be small. It is essentially for this reason that unemployment arising from a deficiency of demand is not a serious problem in the less developed areas of the world. Indeed, if these countries attempt to raise their rates of capital formation, they are likely to be faced with a problem of inflationary pressure. In countries with high productivity, however, total income will be high when the economy is fully employed and consumption is likely to absorb a much smaller proportion of total income produced. The gap between total costs and expenditure on consumption will usually be large. In such countries, in the absence of any planning of their expenditures by investors, overseas purchasers and Governments, these expenditures will sometimes be too large and sometimes too small to fill the gap exactly between total costs and consumption expenditure in conditions of full employment. The economy will thus be faced at times with unemployment and at other times with inflation.

The problem of maintaining full employment appears certainly capable of solution in centrally planned economies, where expenditure on investment and general Government administration is deliberately designed to provide, in combination with personal consumption expenditure, a total expenditure adequate to employ all available resources. Indeed, the present problem in these countries, most of which have large-scale development programmes, is more likely to be to keep demand low enough to avoid inflation. It is less easy for them to control the exact level of exports and

imports, but the central planning authority can change domestic expenditure fairly quickly, to allow for the impact of fluctuations in the demand for exports and in the supply of imports

It is in private enterprise economies, where expenditure arising from private investors and overseas purchasers is determined by the private decisions of large numbers of individuals, that the problem of unemployment arising from deficiency of aggregate demand presents its greatest challenge. Most Governments are seeking to develop policies which will permit them to ensure that aggregate non-consumption expenditure is high and stable enough to ensure a permanent condition of full employment. There are several means by which they may achieve this

In the event of a deflationary tendency developing, they may seek to encourage private investment by tax incentives, interest policy and subsidies. There are, however, doubts about the efficacy of such policies. If investors' expectations are depressed, Governments may find it difficult to improve those expectations by direct action along the lines suggested. If they succeed, they may do so only by inducing entrepreneurs to undertake investment which they would otherwise have undertaken later. While this may have desirable anti-cyclical effects, it may instead merely diminish future investment opportunities and intensify the problem of deficient demand for the future. Furthermore, the policies necessary to induce an improvement in expectations might succeed only at the expense of increasing the inequality of incomes in favour of the recipients of interest and profits. It may therefore be questionable whether Governments can succeed not only in stabilising private investment but also in stabilising it at the level required for the maintenance of full employment. But it seems reasonable to hope that, to the extent that other aspects of Government policy succeed in stabilising demand and employment generally, investors' expectations about the future are less likely to be subject to severe fluctuations.

Governments may also try to increase and to stabilise overseas expenditure on their countries' exports—by lending abroad, by collaborating in international action designed to promote universal full employment and by other actions outlined in chapter VIII of this report. They may also seek to increase expenditure on domestic products by restricting imports. This policy may be effective in the short run and from the point of view of the particular country concerned. However, it limits the advantages to be gained from international specialisation and division of labour,



and will probably invoke retaliatory action by other countries, which will result in a cumulative reduction in the exports of all countries. It is hoped that international action along the lines described in chapter VIII will be effective in discouraging the consideration of such shortsighted policies

So far as direct action by Governments to promote a high level of demand is concerned, the most powerful weapons at their disposal fall into two main groups. First, a Government may increase its own expenditure by going ahead earlier than intended with some of its expenditure plans. To be successful, expenditure will need to be undertaken on a wide range of goods and services, such as engineering products, stocks of finished goods and raw materials and improved administrative and social services, as well as the more traditional public works like roads, forests, dams, irrigation and land conservation projects.

The second type of direct Government action consists of measures designed to increase personal expenditure on consumption. This may be done by increasing the incomes available for spending by persons, for instance, by reducing income tax and by increasing Government payments to persons for social security benefits and consumer bonuses. This action may be supplemented by a lowering of taxes on commodities, such as excise and sales taxes. Such tax reductions would stimulate demand by reducing the prices of the commodities affected.

The task of working out and putting into effect policies required to maintain full employment without inflation is an enormous one. Governments, employers and trade unions will all be deeply affected by success or failure in this task, and each of these groups has a vital contribution to make. The task of identifying the types and extent of action required at any time to avoid unemployment and inflation is finally the responsibility of Governments. Employers and trade unions, however, have also great responsibilities and a possibly even more difficult task. In the first place, if employers can raise and make more stable the level of private investment and of private activity, it will be easier to avoid the risk that the extent of compensatory action required by Governments might be so large as to overwhelm either their administrative machinery or the economic institutions which are accepted by the particular society concerned. Secondly, employers and trade unions will need to take an enlightened view of their social responsibilities and long-run interests in order to assure the reasonable stability of prices and wages and efficiency of production.

that is essential if full employment is to be a universally accepted social aim

The next section of this chapter examines the measures which various Governments contemplate or have adopted for dealing with unemployment arising from a deficiency of aggregate demand.

## MEASURES TO MAINTAIN OR INCREASE THE LEVEL OF INVESTMENT

### *Private Investment*

Since the instability of private investment is the major cause of general unemployment in free market economies, the first point of attack in full employment policy in free market economies is the creation of a favourable environment for private investment so as to maintain high levels of activity in the private sector of the economy. To the extent that Governments can maintain adequate incentives for enterprise and effort, the need for preventive or compensatory employment measures diminishes.

Governments have used several major types of measure in attempting to achieve this end. Among the traditional methods for reviving the volume of private investment is the extension of credit facilities and the lowering of interest rates. A number of Governments, including those of Australia, Belgium, Canada, Greece, New Zealand, Sweden, Turkey and the United Kingdom, indicate their approval of the easing of credit facilities as a means of encouraging private domestic investment.<sup>1</sup>

Belgium and Italy have taken special steps to finance the creation of new industries, the former by establishing a national fund of 1,000 million francs to guarantee loans for such purposes<sup>2</sup>, the latter by setting up a 10,000 million lire fund for the use of credit institutions in granting long-term loans to small industries.<sup>3</sup> The United Kingdom Government also has two financial institutions—the Industrial and Commercial Finance Corporation and the Finance Corporation for Industry—which could use their resources to stimulate private investment if the Government were confronted

<sup>1</sup> Unless otherwise noted, references in this section to national measures to promote employment are to be found in the United Nations Economic and Social Council Document E/1111. *National and International Action to Achieve and Maintain Full Employment and Economic Stability*, dated 31 Jan 1949, and Addenda 1-8, dated 16 and 24 Feb, 3 and 16 Mar, 4 May, 2 June and 21 July 1949.

<sup>2</sup> Communication from the I.L.O. correspondent in Belgium, Mar 1949.

<sup>3</sup> Communication from the I.L.O. correspondent in Italy, Mar 1948.

with serious unemployment<sup>1</sup> The Federal Reserve Board in the United States has adopted the policy of easing qualitative and quantitative credit restrictions as an anti-recession measure. In March and April 1949 the Board relaxed restrictions on instalment purchases and reduced the minimum margin requirements for the nation's security exchanges from 75 per cent to 50 per cent. In May and August 1949 the Board announced reductions in reserve requirements for member banks, which were calculated to release total credit reserves of around \$3,000 million In June 1949 the Board announced a return to its traditional pre-war open market policy, whose primary regard is "the general business and credit situation".<sup>2</sup> In February 1950, the German Chancellor at Bonn announced that 300 million marks would be spent to create new enterprises in Lander where unemployment was highest, and that 50 million marks would be extended in credits to medium-sized and small businesses.<sup>3</sup>

The Governments that have lowered interest rates as a means of stimulating private enterprise include those of Belgium<sup>4</sup> and Italy<sup>5</sup>, while the Swedish Government indicates its intention to lower interest rates should the need arise Most Governments, however, point out that rates of interest are already very low, and they agree in general with official opinion in Canada that "interest rates are now of relatively minor importance in determining the level of expenditure and production"<sup>6</sup> The present attitude towards interest rate control is in sharp contrast with the views prevailing during the 1920's, when there was great faith that central banks could, through rediscount rate policy and open market operations, stabilise the economy at a high level of employment

A second important means of expanding the level of private investment is tax reduction. Canada has adopted a system of extending tax exemption to expenditures made by private undertakings for research purposes, and has in addition followed the

<sup>1</sup> Statement of Mr Geoffrey DE FREITAS, United Kingdom delegate to the United Nations General Assembly, Document A/C 2/SR 104, 25 Oct. 1949, p. 9

<sup>2</sup> *Federal Reserve Bulletin*, Aug. 1949, p. 895, and Sept. 1949, pp. 1081-1082

<sup>3</sup> *Neue Zürcher Zeitung*, 10 Feb. 1950

<sup>4</sup> Statement of Mr VAN DER STRATEN WAILLET, Belgian delegate to the United Nations General Assembly, Document A/C 2/SR 106, 27 Oct. 1949

<sup>5</sup> See the programme announced by the Italian Minister of the Treasury on 8 Apr. 1949 for lowering interest rates, *Foreign Commerce Weekly*, 23 May 1949, p. 25

<sup>6</sup> United Nations Document E/1111/Add

policy of reducing taxes during times of unemployment as a means of encouraging an expansion in production. Both Norway and Sweden have exempted profits from taxation if they are allocated to so-called investment funds which are spent at a time prescribed by the Government, and the Netherlands Government, on the recommendation of its Employment Commission, is considering the adoption of a similar plan.

For a number of years Greece has encouraged new private construction by tax exemptions, and Turkey in its tax legislation has provided for several exclusions and exemptions in order to encourage production. In the United States a Bill has been proposed for the promotion of private investment by permitting more favourable tax treatment of certain new construction.<sup>1</sup>

Another tax proposal designed to encourage private investment is to permit higher depreciation allowances on new investment for business tax purposes. For example, Canada in 1944 introduced a system of allowing depreciation at rates up to double the normal rate for plant and equipment built or acquired during the transition period, whenever such investment represented new plants useful for post-war purposes.<sup>2</sup> The United Kingdom adopted similar measures in 1944. A special allowance of 20 per cent of the original cost of new plant in any year was made deductible from the profits in that year. In addition, a special allowance of 10 per cent was permitted on new factories and industrial buildings, and research expenditure of a capital character was made eligible for a depreciation allowance of 20 per cent in the first year.<sup>3</sup> President Truman has also proposed in the United States that loss carry-over provisions in the corporate income tax laws should be liberalised in order to give an increased incentive to business investments which might be held back because of uncertain profit expectations.<sup>4</sup>

A third significant means of stimulating private investment is governmental promotion and financing of facilities for small business, including industrial research, marketing facilities and statistical services. This type of governmental policy has been adopted by many of the less developed countries as a means of promoting economic development and has also been followed in

<sup>1</sup> *Washington Post*, 24 June 1949, p. 25.

<sup>2</sup> Order-in-Council, P.C. 8640, Nov. 1944.

<sup>3</sup> For a brief discussion of these measures, see T. BALOGH, "The Budget Proposals and Technical Progress", in the *Bulletin* of the Oxford Institute of Statistics, 20 May 1944.

<sup>4</sup> *Midyear Economic Report of the President to the Congress, July 1949* (Washington, D.C., U.S. Government Printing Office, 1949), p. 13.

some of the more highly developed countries, including the United States, the United Kingdom, Belgium<sup>1</sup> and Canada<sup>2</sup>

Fourthly, some Governments have gone further, and adopted a policy of direct public aids to private enterprise, providing certain minimum conditions are met. Since 1939 Finland has permitted the granting of subsidies to industrial undertakings in cases where unemployment is considered relatively temporary and where there is no possibility of transferring the discharged workers to similar employment in other industrial undertakings. The subsidy must be used for a specified project and may not exceed 50 per cent of the amount of wages paid to workers on the project. Approved projects consist of construction or other activity on which the undertaking receives no direct profit, such as the building of sports grounds, gymnasiums and libraries. One of the purposes of this policy is to have the workers immediately available in the industry when the outlook for production improves. In Denmark, under the Public Works and Unemployment Relief Act, the Minister of Labour may also make grants-in-aid to support employment in private industrial undertakings when special circumstances warranting such action are present.

Sweden adopted legislation in the early 1930's under which loans and subsidies might be paid to undertakings that would otherwise be forced to discharge workers. This assistance may not be allocated in such a way as to cause a diminution in the production of other undertakings, however. It was later extended to provide for the establishment of new undertakings as well as the maintenance of existing undertakings. It is granted mainly to small undertakings employing not more than 10 workers.

Norway has followed a policy of setting aside part of the monies paid in for unemployment insurance in a special fund for creating new employment possibilities. Although these funds have been used principally for the construction of trade schools, they may also be used to aid private projects that create new employment opportunities.

### *Public Investment*

Where efforts to revive private investment do not yield a level of investment adequate for the maintenance of full employment,

<sup>1</sup> See statement of the Belgian Prime Minister, *La Libre Belgique*, 17 Aug. 1949, p. 1.

<sup>2</sup> For a study of techniques for stimulating small business, see A. D. H. KAPLAN *Small Business Its Place and Problems* (McGraw Hill, New York, 1948).

Governments seek to expand public works in order to offset the decline in private investment. Governments in both free market and planned economies have public works that may be expanded or contracted to compensate for fluctuations in the remaining part of the investment sector. In planned economies where industries are mostly nationalised, Governments may of course expand any part of the investment sector as a means of offsetting a contraction in other segments of the investment sector or in the sector devoted to the production of consumption goods

Practically all Governments in free market economies have endorsed a compensatory public works policy as a means of coping with unemployment. Australia, Sweden<sup>1</sup>, Norway, the Netherlands and Switzerland<sup>2</sup> report that a substantial part of their public works reserve is in a sufficiently advanced stage to be put into operation whenever the need arises. In October 1949 the United States Congress passed legislation authorising \$100 million to be loaned to State and local Governments to finance the planning of a reserve of public works<sup>3</sup>.

The problem of unemployment has in fact already developed in some countries to such proportions that an emergency expansion of public works has been undertaken to provide employment. In the autumn of 1947 the Council of Ministers in Italy allotted 65,000 million lire for urgent public works to provide jobs for the unemployed during the winter of 1947-1948<sup>4</sup>. In September 1948 an agreement was announced between the Italian Government and the United States Economic Co-operation Administration which provided that monies accumulated in the Lire Fund to the equivalent of \$300 million would be used to finance a vast programme of public works in order to relieve unemployment<sup>5</sup>. On 28 February

<sup>1</sup> In addition, the Prime Minister of Sweden, Mr ERLANDER, has announced that an emergency fund of 150 million kronor will be used to get a large public works programme started should the need develop (*New York Times*, 26 July 1949, air edition, p. 4).

<sup>2</sup> See O. ZIFFEL, "La préparation de la lutte contre la crise et le chômage", *Bulletin d'Information du Délégué aux Possibilités de Travail*, Aug. 1948, pp. 17-24, also "Le programme multiannuel de travaux publics", *ibid.*, pp. 24-29.

<sup>3</sup> Cf. the statement by Mr Isador LUBIN before the Economic and Employment Commission, elucidating the policy of the United States Government on preparedness for unemployment, Document E/CN.1/SR.83, 29 June 1949.

<sup>4</sup> *Review of Economic Conditions in Italy* (Banco di Roma), Nov. 1947, p. 370. See also the Italian Prime Minister's statement to the Parliament and Senate on 2 June 1948, quoted in *Italian Economic Survey* (published by the association of Italian joint stock companies), May-June 1948, p. 6.

<sup>5</sup> Cf. Giuseppe DI NARDI, "Expenditure of the Lire Fund for Anti-Cyclical Purposes", *Review of Economic Conditions in Italy* (Banco di Roma), Nov. 1948, pp. 387-396.

1949 the Italian Government promulgated the Fanfani seven-year housing programme as a means of coping with unemployment. Altogether the programme will provide for 900,000 rooms, equivalent to 180,000 dwellings.<sup>1</sup>

The Belgian Prime Minister announced in August 1949 that the extraordinary budget of public works for 1949 would be raised to about 11,000 million Belgian francs, and that over 2,400 million of credits would be provided to accelerate housing construction.<sup>2</sup> In July 1949, the President of the United States issued an Executive Order calling for the acceleration of Government procurement, construction and other activities "to alleviate serious unemployment in particular localities"<sup>3</sup>, and in the following month ordered a transfer of Government purchasing activities where possible to 11 areas in which 12 per cent. or more of the labour force had been thrown out of work.<sup>4</sup> In August 1949 the Israeli Minister of Labour announced a programme of public works and other projects to provide jobs for unemployed immigrants and demobilised soldiers.<sup>5</sup> Japan has likewise embarked on a programme of work relief projects under the Emergency Unemployment Counter-Measures Law.<sup>6</sup> In February 1950 the German Chancellor at Bonn stated that 2,500 million marks would be spent on housebuilding, 200 million marks on Federal railways and 50 million on postal services, in an effort to eliminate unemployment.<sup>7</sup> The Minister of Construction and Public Works in Hungary undertook an expansion of public works projects in the winter of 1947-1948 to counteract temporary unemployment.<sup>8</sup>

In addition to counter-cyclical timing of public works projects of the traditional type, some Governments contemplate a flexible operation of their long-term development and reconstruction programmes. Thus the French Government has taken the position that "speeding up the programme of modernisation and reconstruction will be the principal means of meeting any danger of deflation"<sup>9</sup>. In the Argentine Republic President Perón has

<sup>1</sup> *Gazzetta Ufficiale*, No 54, Mar 1949

<sup>2</sup> Statement of the Belgian Prime Minister, *La Libre Belgique*, 17 Aug. 1949, p 1, see also CHAMBRE DES REPRÉSENTANTS *Programme décennal des Investissements publics, 1948-1957*

<sup>3</sup> *New York Times*, air edition, 15 July 1949, p 5

<sup>4</sup> *Ibid.*, 10 Aug. 1949, p 1

<sup>5</sup> *Service israélien d'Information* (Paris), 5 and 11 Aug 1949

<sup>6</sup> *Official Gazette* (Tokyo), 21 June 1949, pp 2-4

<sup>7</sup> *Neue Zürcher Zeitung*, 10 Feb. 1950

<sup>8</sup> Ordinance No 13,860/1947, *Magyar Kozlony*, 27 Nov. 1947.

<sup>9</sup> Statement of Mr MENDES-FRANCE, French delegate to the Economic and Social Council, Document E/SR, 23 Feb 1949, p 19

stated that the threat of unemployment is and will be met by accelerating the five-year plan already in operation.<sup>1</sup>

Similarly, the Australian Government indicates that its programme of long-term public investment with a National Works Reserve amounting to £ A 743 million managed by the National Works Council is planned in such a way that it can be accelerated in order to offset a decline in similar types of work financed by private investment.<sup>2</sup> For example, the Australian Public Housing Programme would be stepped up should a decline take place in construction in private housing. In the same way, a decline in private investment in industry would be compensated by Government building of telephone exchanges, engineering works, railways, water schemes and similar projects.

Although compensatory public works programmes have been traditionally viewed as consisting primarily of public construction projects, the concept has been broadened within recent years to include three other types of projects, namely, public service projects, land development projects and public production projects.

The purpose of a public service employment programme is to provide alternative employment for idle workers normally engaged in service occupations. The possibilities of developing service projects that will efficiently utilise unemployed service workers are very great. Unemployed typists, for example, can be given work in relief offices or in transcribing results of research. Former bank clerks and financial clerks can be set to work analysing and modernising public financial records. Salesmen, agents and canvassers may find comparable employment on tax delinquency, traffic and other fact-finding surveys. Ex-proprietors and managers can be used in managing various parts of the work programme. Many public projects await unemployed professional workers in the fields of music, art, the theatre and education. Engineers and draughtsmen can be effectively used in planned construction projects. Housekeeping and hospital aid projects offer opportunities for domestic service workers. Scientific workers may find research opportunities in universities and colleges.

The United States has had the most experience in this type of economic policy. At its peak, over 600,000 people were employed in the public service projects programme of the United States Government during the 1930's. The programme included research,

<sup>1</sup> *New York Times*, air edition, 7 July 1949, p. 5

<sup>2</sup> COMMONWEALTH OF AUSTRALIA, NEWS AND INFORMATION BUREAU *Bulletin* (London), 31 Aug. 1949, annex, p. 1



recreation, education, public records, libraries, art, music, writing, museum, child nursery and public health projects <sup>1</sup> Other countries which set up work projects for professional workers during the 1930's include Austria, Czechoslovakia, Esthonia, Finland, Germany, Japan, Poland and Switzerland

Land development projects are a type of public work requiring a wide range of skills and work experience, and they have the additional virtue of wide geographical distribution. Land development embraces soil conservation, including check terracing, outletting and grass covering, flood control, irrigation and drainage, including dams, channel work, ditching and riprapp, forest culture, including planting of trees, stand improvement, nursery work and seed collection, forest protection, including fire-fighting, fire prevention and suppression, and pest and disease control, landscape and recreation development, including public camp and picnic grounds, lake and pond site clearing, range development, including stock driveways and elimination of predatory animals; wild life development, including stream improvement, stocking fish, emergency wild life feeding, food and cover planting

A number of countries included land development projects in their anti-depression public works programmes during the 1930's, among them Belgium, Canada, Chile, Finland, France, Germany, Italy, Sweden, the United Kingdom and the United States <sup>2</sup> Although land development, except on public lands, has in the past been considered a private responsibility, there has been an increasing tendency to recognise the importance, in the public interest, of conserving the natural resources that are privately owned. Accordingly, the concept of public work on private property has developed, particularly in the United States, where public money is used to help to finance improvements on private lands provided that certain conditions are fulfilled, *e g*, that the improvement is a part of an integrated plan in improved land use and that the individual, generally a farmer, matches the public expenditure with some contribution of his own, in the form of either money or work <sup>3</sup>

Public production projects, another type of public work, are primarily the outgrowth of two conditions which prevail during

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<sup>1</sup> Cf. WORKS PROJECTS ADMINISTRATION *Final Report on the W.P.A. Program, 1935-43* (Washington, D.C., 1946), pp. 59-71.

<sup>2</sup> Cf. I.L.O. Studies and Reports, Series C, No. 19: *Public Works Policy* (Geneva, 1935), chapter I, and New Series, No. 3: *Public Investment and Full Employment* (Montreal, 1946), part IV

<sup>3</sup> See John F. TIMMONS "Public Works on Private Property", *Journal of Farm Economics*, Nov. 1944

periods of unemployment. On the one hand, there are idle factories, surpluses of raw materials and millions of unused man-hours of labour. On the other hand, there is a vital need for the goods that these factors of production can produce. Thus there has been an attempt to bring some of the idle factories, surplus materials and unemployed manpower together in a public production programme.

There are two distinct types of production projects, namely, the self-help co-operative and the wholly public project, which may provide alternative employment in time of depression. The self-help co-operative project is initiated and controlled by the unemployed workers themselves. Local autonomy is the rule and a minimum amount of Government supervision and control is present. Self-help co-operatives may exist as isolated projects or they may be part of a well-diversified production system on a local, State or national basis. In the second type of project, the Government operates and controls the programme. It may be a work relief type of project paying a subsistence wage and utilising hand methods of production, or it may be a fully-fledged factory type of project utilising the most modern production methods and paying prevailing wages. Projects may be undertaken by a local relief commission, or they may be organised into a diversified production programme on a nation-wide basis.

The United States has probably had most experience in this field. In 1934, peak employment on public production projects under the Federal Emergency Relief Administration was over 350,000<sup>1</sup>. However, the F.E.R.A. encountered opposition to many of its production projects on the grounds that they competed with private enterprise.

Governments may also help to stabilise the level of investment in the economy by compensatory equipment and supply purchase programmes. This technique can, of course, be applied widely in planned economies, since practically all undertakings are Government-owned. In other economies also there are often large segments which offer counter-cyclical possibilities, such as the railroads and public utilities. For example, the possibility of a counter-cyclical programme in the manufacture of railway wagons has received considerable attention in the Subcommittee on Rail Transport of the Inland Transport Committee of the Economic

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<sup>1</sup>FEDERAL EMERGENCY RELIEF ADMINISTRATION *The Emergency Work Relief Program of the F.E.R.A., April 1, 1934 - July 1, 1935* (Washington, D.C., 1935), p. 56

Commission for Europe. In view of the wide cyclical fluctuations in the production of railway wagons before the war in Europe, the Subcommittee has proposed "placing large orders during slack manufacturing periods in order to combat unemployment and stabilise the over-all economy of Europe"<sup>1</sup> Such a counter-cyclical purchase programme would not only permit rolling stock to be purchased at lower cost but would also contribute to the maintenance of investment activity. Moreover, Governments may undertake the counter-cyclical purchasing of supplies consumed by Government departments, such as furniture, clothing, boots and shoes Both Norway and the United Kingdom have followed this policy, though the latter points out that purchases coming under the head of defence expenditure are dictated largely by non-economic considerations

#### MEASURES TO MAINTAIN OR INCREASE THE LEVEL OF CONSUMPTION

If consumption is falling below the level necessary, in conjunction with other types of demand, to maintain full employment, measures may be taken to increase the income in the hands of consumers in order to stimulate demand This does not mean, however, that increasing income in the hands of the consumers is the only way to increase consumption; in some cases a reduction in prices will be an important means of expanding consumption and employment

One of the most important means of increasing consumer income is the reduction, remission or rebate of taxes. Several Governments, including those of Canada, Sweden, the United Kingdom and the United States, point out that their tax policies operate as automatic stabilisers in the case of a decline in the level of employment The United Kingdom Government estimates that total liabilities for tax decline in about the same proportion as a fall in incomes and employment, and that since the central Government taxes now amount to about one third of total personal income, this effect alone would offset about one third of any decline in demand that might take place The United States Government estimates that the "pay as you go" principle in the collection of personal income tax has the effect of reducing Federal revenue by \$2,000 to \$2,500 million with every drop of

<sup>1</sup> Documents E/ECE/Trans /179 and E/ECE/Trans /S 62/31, 21 Oct. 1949 See also the report of the group of experts on the renewal and construction of rolling stock, Document E/ECE/Trans /SC.2/24

\$10,000 million in the gross national product. The Canadian Government indicates that reduction in appropriate taxes will be used to help to stabilise consumption in a period of declining economic activity. On 1 October 1949 the Belgian Government eased the tax burden on low incomes by increasing exemptions. At the same time taxes were decreased on earned incomes by an average of 16 per cent.<sup>1</sup>

The United Kingdom Government, however, believes that for stimulating consumption a system of deferred tax credits is preferable to tax variation. According to this plan, reserves are accumulated to the credit of the taxpayer by excess taxation in prosperous times and are refunded to him in bad times. During the war, the United Kingdom used this plan as a means of counteracting inflation and now has £570 million of credits which can be used to bolster up consumption if aggregate demand should begin to decline. Norway also has a substantial balance of private cash holdings which were blocked immediately after the liberation, which it can unfreeze if necessary in order to raise the level of consumption.

A compensatory tax policy is also one of the means used for controlling the volume of consumption in planned economies. This is well illustrated by the general tax levied in Czechoslovakia since January 1949. It consists of a purchase tax affecting all goods produced by industry, handicrafts and agriculture. Tax rates are established and amended in accordance with the needs of the plan by the Minister of Finance with a view to keeping aggregate purchasing power in continuous equilibrium with aggregate nationalised production.<sup>2</sup>

Tax policy may also be used to increase the level of consumption through shifting part of the tax burden from the lower income classes to the higher income classes. The increased emphasis on the ability-to-pay principle in national tax systems during the last several decades has had the effect of substantially increasing the level of consumption and reducing the level of current savings in many countries. It is widely recognised, however, that there are limits beyond which progressive taxation may not go in raising the propensity to consume without setting up counteracting tendencies that depress the level of employment through discouraging incentives to invest.

Income supplements or payments to consumers by Governments

<sup>1</sup> *L'Echo de la Bourse*, 5 Sept. 1949.

<sup>2</sup> *Sbírka zákonů*, No. 102, 24 Dec. 1948, and No. 103, 28 Dec. 1948.

constitute a second means of increasing the disposable income in the hands of consumers. The United States developed an ingenious method during the 1930's to raise the level of consumption through its food stamp plan. The plan applied to those on work relief, and provided for the distribution of stamps which could be used as money at any retail outlet to buy foods that were listed by the Secretary of Agriculture as surplus commodities<sup>1</sup>. Although it was not of major importance, the plan had the distinction of obtaining support from everyone, including business men, workers and farmers, and could if necessary be extended to other types of surplus consumer goods.

Bonuses and extra compensation to ex-servicemen are another minor means of supplementing consumer incomes in times of low employment. For example, the United States made large soldiers' bonus payments during the depression in the early 1930's. Australia has established a War Gratuity Reserve to meet the cost of around £A 70 million in gratuities to members of the wartime fighting services, to be paid in 1951<sup>2</sup>. The Belgian Government has also undertaken to speed up the payment of compensation of war damage as a means of increasing consumer income<sup>3</sup>.

A third means of maintaining consumer purchasing power, particularly of the farming population, is provided by price supports for agricultural products. This policy is important in many countries which have a large agricultural population, including Australia, Canada, Denmark, Greece, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States. Although the system of administering price supports varies considerably, the central objective of all such plans is to guarantee minimum prices to the farmer for his products, thereby stabilising farm income at the desired level.

A fourth area in which economic stabilisers and compensatory action are generally found is social security<sup>4</sup>. Unemployment insurance is one of the best examples of automatic compensatory techniques available to Governments, since benefit payments vary inversely with the level of employment. The United Kingdom

<sup>1</sup> For a discussion of this plan and its possibilities, see Willard W. COCHRANE *High Level Food Consumption in the United States* (Washington, D C, Bureau of Agricultural Economics, 1945).

<sup>2</sup> COMMONWEALTH OF AUSTRALIA, NEWS AND INFORMATION BUREAU *Bulletin*, 31 Aug 1949, p. 4.

<sup>3</sup> Statement of the Belgian Prime Minister, *La Libre Belgique*, 17 Aug 1949, p. 1.

<sup>4</sup> For a detailed discussion of social security measures, see chapter III of this report.

has introduced an additional compensatory element into its social security system by permitting the Treasury to vary unemployment insurance contributions according to the level of employment if this appears expedient in maintaining a stable level of employment.

The introduction of the compensatory principle into other types of social insurance, while it may be an appropriate policy as regards contributions, encounters difficulties when applied to benefit payments. In the first place, the social risks involved are independent of the level of employment. Secondly, beneficiaries have generally built up rights within the social insurance systems which cannot be abrogated. Nevertheless, the extension of social insurance in recent years in most economies to include such payments as health insurance benefits, widows' pensions, maternity benefits and family allowances together with old-age pensions, has an important role to play in stabilising the economy at a high level of employment.<sup>1</sup> By increasing and stabilising the level of consumption of a large part of the population which in the past has had not only unstable, but also low, incomes, the economy is to that extent protected from the possibility of a large and sudden decline in aggregate demand.

Another means of increasing the nation's capacity to consume is minimum wage legislation. There are frequently large numbers of workers, for example women and minors, whose bargaining power is weak and whose wages are very low. By establishing minimum wage rates in such occupations and industries, the Government can increase the degree of equality of income distribution and raise the level of consumption, and so help to counteract some of the tendencies making for an insufficiency of total demand. Minimum wage legislation is to be found in practically all the highly developed countries, as well as in many of the less developed economies. The effect of the trade union movement in raising workers' wages is similar to that of minimum wage legislation in that it raises income in the lower income brackets. It may be pointed out, however, that wage increases beyond certain limits may have the effect of reducing employment and discouraging investment.

A shortening of the working week may also be used to prevent or reduce unemployment in certain situations, although generally such action might be better used as a means to increase the long-

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<sup>1</sup> See, for example, the projected rate of increase in social security benefits under the Czechoslovak Five-Year Plan, in "The Czechoslovak Five-Year Plan", *International Labour Review*, Vol. LIX, No. 1, Jan. 1949, pp. 73-75.

run stability and welfare of the economy than as an anti-cyclical device. In high-income economies, people may prefer to work fewer hours and increase their leisure, rather than to work the same number of hours and increase indefinitely their consumption of goods and services. If there is at the same time a threat of a glut on the market, reducing the number of hours in the working week will tend to prevent the development of unemployment. Moreover, if a deflationary trend is already under way, a reduction in the legal working week may have a salutary effect in another way by spreading available employment and helping to maintain the level of consumption. For example, in 1938 it was hoped that the passage of the United States Fair Labor Standards Act establishing a 40-hour week as a maximum in interstate commerce would provide employment opportunities for some of the nation's unemployed.<sup>1</sup> In 1941 an Order permitting a short-time working week was issued by the Belgian Government which had the effect of helping to sustain the number of workers in employment. In industries coming under the Order, i.e., the textile, clothing, and diamond industries, workers were granted short-time allowances when their hours of work during two consecutive weeks were not less than 30 per cent. or more than 74 per cent. of the normal hours of work in their occupation. A sum of 50 million francs was placed at the disposal of the National Employment Office for the administration of the Order.<sup>2</sup>

Another important way of maintaining or expanding the level of employment is the use of a flexible price policy. Price adjustment is an accepted means in planned economies for removing disequilibrium arising either between the effective demand and supply for a particular commodity or between aggregate demand and aggregate supply. Thus the Czechoslovak Government in its reply to the United Nations questionnaire states that "in a planned economy, unemployment cannot arise as the consequence of a deficiency in effective internal demand, since private and public consumption are also planned, through the control of prices and income"<sup>3</sup>

Governments in free market economies have also recognised the importance of price policies that are conducive to the main-

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<sup>1</sup> Cf WAGE AND HOUR AND PUBLIC CONTRACTS DIVISIONS: "The Fair Labor Standards Act, 1938 to 1948", in *1948 Annual Report* (Washington, Government Printing Office, 1948), p. 1.

<sup>2</sup> Cf I.L.O., *Legislative Series*, 1941—Bel. 2

<sup>3</sup> Document E/1111, 31 Jan 1949, p. 50

tenance of full employment <sup>1</sup> Thus consumption and employment can often be rapidly expanded by passing on the benefits of technological improvement to all consumers in the form of lower prices <sup>2</sup> Moreover, it is widely recognised that monopolistic price rigidities, by interfering with the operation of free market processes, are a threat to the maintenance of full employment Monopolistic tendencies are, however, to a certain extent inherent in the nature of large-scale industry and the corporate structure that has grown up around it. Such action as has been taken on price policy, therefore, has been directed towards long-run structural changes in the economy making for greater price flexibility, rather than towards emergency measures to arrest a deflationary trend.

Two methods have been used by Governments in their attempts to reduce monopolistic practices One has been to launch legal proceedings against monopolistic combinations This policy has been pursued with greater or less vigour in the United States <sup>3</sup>, the United Kingdom <sup>4</sup>, Sweden, Germany, Japan and other countries, but has achieved only piecemeal results

Secondly, Governments may encourage or establish competing enterprises in monopolistic industries in an effort to restore competition and lower prices, although there is a danger that such policies may have an adverse effect on employment by discouraging the entrance of new private capital. This technique has been proposed in the United States Economic Stabilisation Bill of 1949 <sup>5</sup> Sweden has succeeded in breaking up monopolistic controls through co-operative undertakings <sup>6</sup>

<sup>1</sup> In a Resolution concerning economic policies for the attainment of social objectives, the 26th Session of the International Labour Conference (1944) urged "that all practicable measures be taken to maintain a high and steady level of employment", including "measures to discourage monopolistic practices and to encourage technological progress, (and) to maintain a reasonably flexible system of prices and wages" Cf *First Report of the International Labour Organisation to the United Nations*, Vol II (Geneva, 1947), p 314.

<sup>2</sup> For an account of the role that price reduction may play in expanding markets and employment, see Edwin G NOURSE *Price-Making in a Democracy* (Washington, Brookings Institution, 1942)

<sup>3</sup> See a statement of the former Attorney General, Tom C CLARK, *New York Times*, 12 July 1949, air edition, p 1 For an appraisal of the effectiveness of the anti-trust laws in the United States, see D. M KEEZER "The Anti-Trust Laws: A Symposium", in *American Economic Review*, June 1949, pp 689-725

<sup>4</sup> See the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948, 11 and 12 Geo 6., ch 66

<sup>5</sup> It may be noticed also that the United States Government used the technique during the war to break the hold of the aluminium monopoly by financing the development of a competing corporation.

<sup>6</sup> See John LUNDLEY "The Swedish Consumer Co-operatives and their Fight against Monopoly", *Revista della Cooperazione*, May 1948; see also



## FINANCING GOVERNMENT EXPENDITURE

The adoption of a full employment programme has far-reaching implications for traditional canons of public finance in free market economies. Prior to the great depression of the 1930's, sound financial policy was widely considered to require, except in time of war, a balanced Government budget in each fiscal year. It was only after being confronted with intractable mass unemployment for several years that theory and practice changed in the 1930's.

Now it is generally recognised that if a Government wants to maintain full employment it must adopt a compensatory fiscal policy to offset the irreducible fluctuations in the private sector of the economy. Fiscal policy may be used to increase the disposable income in the hands of consumers in two major ways<sup>1</sup>. First, Government expenditures may be increased, revenues remaining constant. Second, Government revenues may be decreased, expenditures remaining constant. The resulting gap between expenditures and revenues could then be financed either by selling bonds to the public or to the central bank, by the issue of new money, or by drawing upon reserves that had been accumulated in a previous period of prosperity. The choice of means of financing the deficit spending would depend on several factors, including the nature of the banking system, the level of savings, public attitudes toward monetary and debt management, and the general institutional arrangements in the economy. In each case the Government adds more to the national income stream through its expenditure than it takes from national income through taxation. In periods of inflationary pressure, the process would be reversed, with the Government taking more from the national income stream by taxation than it adds to national income through its expenditure. In this manner compensatory fiscal policy becomes an integral part of full employment policy.

No country replying to the United Nations questionnaire expressed itself in favour of raising tax rates to cover increased

<sup>1</sup> "The New State Bank" in *Quarterly Review* (Skandinaviska Banken), July 1949, pp. 62-66.

<sup>1</sup> A third theoretical way in which private spending might be increased is through changing the incidence of taxation or imposing a combined system of taxes and subsidies. Such a proposal, however, presents extreme practical difficulties. Cf. Nicholas KALDOR "The Quantitative Aspects of the Full Employment Problem in Britain", Appendix C in William H. BEVERIDGE *Full Employment in a Free Society* (London, George Allen and Unwin, 1944).

Government expenditure in times of declining employment. The Governments of Belgium, Denmark, the Netherlands, Switzerland and the United Kingdom all indicated that they would at such times finance extraordinary expenditure, such as public works, through loans rather than taxation.

Moreover, it is generally agreed that the extent to which the public debt can be safely expanded to finance a full employment programme will depend on many unpredictable factors. Thus national debt policy in New Zealand is conditioned by the "ruling economic and fiscal circumstances" and in Canada by the "circumstances and prospects at the time". The United States at present operates under a statutory debt limit of \$275,000 million, but the significance of the limitation is reduced by the fact that the ceiling has been changed from time to time as dictated by contemporary circumstances. The United Kingdom Government does, however, draw attention to the undesirability of the national debt increasing over any long period at a greater rate than the national income.

Rather than expand its public debt in time of depression, Finland prefers to finance its employment measures by a contra-cyclical fund accumulated in periods of budgetary surplus. This contra-cyclical fund reached \$32 million in 1938, but because of wartime drains it declined to \$3 million by the end of 1947. The Government is now considering an increase in the fund.

The methods of financing investment in a planned economy vary somewhat from country to country, but they include strict control of credit, public loans, extraordinary levies, taxation and reinvestment in nationalised industries. Since, however, the Governments envisage full employment as a by-product of their over-all economic planning, financing appears as an integral part of national planning and not as a special problem of providing for extraordinary Government expenditure in times of declining employment.

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## CHAPTER V

# IMPROVING THE ORGANISATION OF THE EMPLOYMENT MARKET

### INTRODUCTION

A considerable proportion of current unemployment is frictional in character. It arises from a lack of correspondence between supply and demand for different kinds of workers in different occupations. Much of this kind of unemployment could be remedied if there were more adequate measures to bring men and jobs together, to develop and adapt skills through training and retraining, to reduce the interval between jobs in individual cases, and to ensure that persons displaced by structural change find alternative employment opportunities in other industries, occupations, or areas. Efficient organisation of the labour market, aimed at bringing available workers and available jobs together, is vitally necessary to reduce frictional unemployment to a minimum consistent with national principles and traditions of action.

Employment and training services are the pivotal parts of the machinery of employment market organisation. The employment service is the central, co-ordinating mechanism providing the facts needed for action and the means for bringing men and jobs together, locally and on a national basis. The training and retraining services provide the primary instrument for developing skill and promoting the occupational mobility of labour necessary for matching labour supply and demand. These services must therefore be kept at their full strength and efficiency as indispensable weapons for combating unemployment.

This principle is difficult to apply in a period of developing or general unemployment, because both employment and training services base their activities on subsequent placement in employment. With a few exceptions, it was not, in fact, applied during the depression of the 1930's. Subsequent experience proved that this policy was short-sighted. Where employment and training services were weakened or broken down, they

had to be strengthened and built up again to meet the needs of the employment situation as well as to prepare for the future

Experience has proved conclusively that the systematic organisation of the employment market is an essential condition for the permanent control of the problem of unemployment. It has a vital part to play in eliminating unemployment caused by friction in the working of the economy or by structural changes in industry. This is a principle of action to which the I.L.O. attaches great importance. It considers that the machinery of employment market organisation needs to be re-examined and strengthened for this purpose, so that it is continuously equipped to meet new and changing needs. It believes that the international standards adopted by the International Labour Conference relating to the organisation and operation of employment, vocational guidance and training services for young and adult workers have an important application in this connection.

#### INFORMATION AS THE BASIS OF ACTION

The solution of unemployment problems depends upon reliable, detailed and up-to-date information on the situation and trend of employment. In this field, the employment service bears a heavy responsibility for both collecting and analysing the needed data and for making them available systematically and promptly to the public authorities, employers' and workers' organisations, and the individuals concerned. The basic task, as the Employment Service Recommendation of 1948 points out, is to collect material pertaining to current and prospective labour requirements (including the number and type of workers needed, classified by industry, occupation and area) and to current and prospective labour supply (including details of the number, age and sex, skills, occupations, industries and areas of residence of those seeking work).

There are still relatively few countries which have full and detailed knowledge of the existing employment and unemployment situation. Still fewer consider that they are in a position to forecast with reasonable accuracy the trend of labour demand and supply. Too often, as the Canadian Advisory Committee on Reconstruction emphasised in one of the reports of its subcommittees<sup>1</sup>, employ-

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<sup>1</sup> ADVISORY COMMITTEE ON RECONSTRUCTION, Report V. *Post-War Employment Opportunities* (final report of the Subcommittee) (Ottawa, 1944), p. 7. The need for better information on labour supply and demand as a basis for employment market planning has also been emphasised in Australia, Belgium, France, New Zealand, the United Kingdom and the

ment statistics, occupational information and information on employment market trends are collected only as by-products of other work. In particular, the statistics available do not as a rule make it possible to differentiate one kind of unemployment from another, to classify persons registering for employment on the basis of re-employment prospects or employability, to analyse their special needs or to plan training and retraining and other aspects of employment according to manpower trends.

So far as regular employment service statistics are concerned, for example, the records of vacancies notified do not in most countries provide a comprehensive picture of the demand for labour. In an increasing number of countries the employment service itself takes the initiative, through better contacts to improve the information so available. By building up a tradition of service to employers, particularly those who employ the bulk of the working population of the area, each local employment office may assemble a fairly complete picture of local demand for labour. This is done as a routine part of the work of the local offices in Australia, Canada, New Zealand, Sweden, the United Kingdom and the United States, for example, and the result is that the information on the local employment market has been steadily improved.

Employers in all branches of economic activity might be encouraged to notify their employment vacancies to the employment service. The employment service might use more initiative to obtain this information regularly from all major employers in local employment market areas, maintaining systematic contacts with employers for this purpose. In many countries it may be feasible to reinforce these steps by requiring public agencies and public contractors working on public orders to the extent of 50 per cent or more of their operations to notify their job vacancies to the employment service.

For information on labour supply, the situation is somewhat similar. Current data tend to be insufficient for purposes of combating unemployment. There is a need to consider means by which the existing data can be supplemented, with a view to improving the informational basis for action. Several suggestions arising directly out of national law and practice may be made in this regard.

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United States in connection with official policy statements on full employment. A number of Asian and Latin American countries are also striving to improve their employment market information programmes.

Firstly, all persons claiming or receiving unemployment benefit or assistance, and all persons undergoing publicly sponsored training or retraining or applying for transfer assistance of any kind, might be required to register with the public employment service. This requirement has a widespread basis in national law and regulations and is also included in the international Employment Service Recommendation of 1948. In practice, such a provision serves to bring the employment service into contact with the great bulk of the unemployed population and thus gives it a comprehensive knowledge of their needs for employment or re-employment and a more accurate picture of local and national unemployment conditions.

Secondly, it may be useful to make systematic arrangements to ensure that juveniles leaving school and entering the employment market for the first time are registered with the public employment service or with the appropriate youth placement agencies, *e g*, by encouraging or requiring the schools to inform the employment service of all those leaving school, or simply by planned campaigns to encourage juveniles leaving school to make full use of youth guidance and placement facilities. Should it be desirable in terms of national traditions of employment market organisation to develop such arrangements, and should it be feasible to do so, the employment service would have access to fairly complete information on the flow of young workers into the employment market.

Another type of labour supply and demand information needed by the employment service for purposes of employment market organisation is statistics of the extent and nature of labour turnover and the reasons for such turnover. This type of material provides a vital clue to employment conditions. In particular, full information about dismissals and lay-offs has been found necessary for planning against unemployment.

In the case of large-scale dismissals and lay-offs, it is useful for the employment service to have advance knowledge. War-time and transition period experience of a number of countries, including Australia, the United Kingdom and the United States, suggests that, for dealing effectively with large-scale labour displacements, the local offices of the employment service should have prior notification of the probable extent and timing of the dismissals and lay-offs and of the probable duration of the lay-offs, as well as detailed information on the qualifications of the workers to be displaced.

Thus, so far as planning against unemployment is concerned, it would undoubtedly be useful to intensify efforts to ensure that employers notify the employment service in advance of all terminations of employment affecting more than a specified number of workers (say 25). These efforts would help to provide a further important source of information relating to labour supply as well as to changes in labour demand. In cases of unemployment where retraining or transfer is indicated, the advance information on dismissals can be put to immediate practical use in planning re-employment.

Individual displacements can be handled more easily through the normal machinery of the employment service. No special burden is thrust upon the employment offices and they can deal with each worker's case as it arises. Nevertheless, experience has indicated that prior notification of terminations of individual employment contracts should also be encouraged as a means of giving the employment service information on the employment market situation and trend and enabling it to plan how to meet the needs of the unemployed.

Studies and research of various kinds can also contribute substantially to the informational weapons needed to combat unemployment. One type of study of particular value in supplementing routine employment service information is special intensive analyses of area, industry and occupational problems of employment and unemployment. The United States Employment Service has done considerable pioneering in this field (*e.g.*, through its employment market reports and occupational research programme) and the data so made available have proved their practical utility (*e.g.*, in promoting sound training policies and labour mobility).<sup>1</sup> In the United Kingdom, the special detailed studies made of the pre-war "special areas" and the post-war "development areas" have provided the basis for the evolution of policy for dealing with unemployment in these areas.

Since such studies have a basic part to play in analysing the character of unemployment and thus suggesting a constructive approach for its solution, it may be urged that special measures should be taken to initiate, through the employment service and related agencies, intensive studies of the employment situation and trend in particular industries, occupations and areas.

<sup>1</sup> For a brief description of the occupational research programme of the United States Employment Service, see *International Labour Conference*, 30th Session, Geneva, 1947, Report V (1). *Employment Service Organisation* (Montreal, 1946).

It should be emphasised, in conclusion, that practical results may be achieved in these various ways only where the employment service is in a position to carry out the work involved efficiently and without causing undue inconvenience to the employers and workers concerned and only where the service is technically able to make good use of the information so gained. The general aim and effect would be to widen the informational basis for action against unemployment. It is in the light of this objective that the desirability of the various measures suggested should be examined, while, as indicated above, the practicability of such measures will be determined primarily by the efficiency of the employment service.

### RECRUITMENT POLICY

Where detailed information concerning existing and prospective labour supply and demand is available, especially for particular industries and occupations and in particular localities, it is possible to seek a better balance between the demand for and supply of workers through recruitment measures aimed at relating the flow and distribution of new entrants into the various industries and occupations to the estimated absorptive capacity of those industries and occupations.

In planned economies, attention to recruitment is an inevitable part of employment market organisation. Production goals are laid down, steps are taken to ensure the supply of essential factors affecting production, and recruitment may be planned on the basis of the manpower budget and the relative priorities laid down as regards the allocation of labour and skill. Young people and adults exercise vocational choice only within the limits of these priorities.

In a free market economy, it is far more difficult to develop recruitment policies closely related to the current and prospective manpower requirements of the different industries, trades and occupations. There is now, however, an increasing recognition of the need to substitute more orderly methods for the piecemeal and *ad hoc* arrangements of the past and to make of recruitment a force for good in the employment market instead of continuing the incoherent and sometimes self-contradictory practices of individual employers or trade unions. Since the war, there has been a marked development of interest in the planning of recruitment, particularly of young workers, in a number of countries, *e.g.*, Australia, Belgium, France, Norway, the Union of South Africa and the United Kingdom. This interest may be traced to the



existence of more positive employment and employment market policies; it stems partly from the expansion of vocational guidance services and partly from the reorganisation of youth training and adult retraining schemes

The main agencies in recruitment are the employers and trade unions. Thus their agreement on principles and methods and their co-operative effort form an essential basis for action to systematise recruitment in terms of employment market needs. Generally, where these two groups collaborate, recruitment policies can be worked out in terms of the volume and character of the manpower demands of the different industries and occupations, particularly at a local level, where the great bulk of recruiting for undertakings necessarily takes place. In some cases, the machinery used for this purpose consists of national and local committees of employers' and workers' representatives of the trade or occupation concerned—sometimes, as in a number of trades in the United Kingdom, as a subcommittee of an existing joint body set up to deal with the problems of the industry as a whole. In other cases, a public interest in recruitment has been recognised by adding representatives of Government agencies concerned to the industry machinery dealing with recruitment.

Much of the joint machinery set up to help to make recruitment more orderly is still in an experimental stage. Its progress will be watched with interest, however, because it unquestionably represents a forward step in employment market organisation and a useful supplement to the unilateral practices of individual employers or trade unions with regard to recruitment. The aim, in respect of each major industry and occupation, is to formulate, on a national and local basis, and through collective agreements and otherwise, recruitment policies which will seek to adjust the supply of workers to current and prospective demands for labour in the industry or occupation in question, in conformity with national policy relating to employment market organisation.

#### VOCATIONAL GUIDANCE AND EMPLOYMENT COUNSELLING

The main need of workers who lose their employment, apart from an income for themselves and their families to live on, is for technical assistance in finding alternative employment or the training or retraining required for re-employment. In present-day employment conditions, it is too much to hope that individual workers will be able accurately to diagnose their own position and

prospects and find their way, unaided, into the most suitable alternative employment available. Many of them—in fact, the great majority—need access to vocational guidance or counselling services capable of helping them into suitable employment. The provision of such assistance is therefore an essential part of employment market action against unemployment.

This need for guidance and counselling services for unemployed workers became obvious during the last depression. Little was done to meet it, however, for three main reasons. One was the lack of qualified and experienced personnel capable of providing adequate counselling assistance. The second was lack of funds for employment service work in general and for an expansion of guidance and counselling activities in particular. The third was the general stage of development of employment services and related agencies in most countries: they were not really able to take on a new task, having insufficiently mastered their two basic functions of collecting employment market information and placement.

The importance of guidance and counselling services for the unemployed was further recognised during the early part of the war when, despite labour shortage, the unemployed were not being absorbed as rapidly as had been expected. The process of reabsorbing ex-service personnel and war workers into peacetime economic life also gave new impetus to the development of guidance and counselling facilities. Finally, post-war full employment campaigns have included emphasis on such facilities as an integral part of action to ensure manpower distribution and redistribution contributing to the smooth and efficient working of the economy.<sup>1</sup>

In 1949, the International Labour Conference, aware of the importance of these trends not only for promoting individual work satisfaction, but also for improving employment market organisation, adopted the Vocational Guidance Recommendation. This Recommendation urges the rapid development of vocational

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<sup>1</sup> A descriptive analysis of the organisation, principles and methods of vocational guidance and employment counselling is available in the report prepared for the 31st Session of the International Labour Conference—Report V (1). *Vocational Guidance* (Geneva, 1947). This report has been supplemented by a series of articles in the *International Labour Review* on vocational guidance and counselling in particular countries (see “Vocational Guidance for Juveniles in the United Kingdom”, Vol. LVII, Nos 1-2, Jan - Feb 1948; “Vocational Guidance in Belgium”, No 3, Mar. 1948, “Vocational Guidance in the United States”, No. 4, Apr. 1948, “Vocational Guidance in Sweden”, No 5, May 1948, “Vocational Guidance in Poland”, No. 6, June 1948; “Vocational Guidance in the Argentine Republic”, Vol. LX, No. 2, Aug. 1949, and “Vocational Guidance in France”, No. 4, Oct. 1949).

guidance and employment counselling services and suggests standards to accelerate the development of these services along sound lines

The application of the provisions of this Recommendation can make a substantial contribution in combating unemployment. It may therefore be hoped that, as a part of action against unemployment, Governments will undertake to examine, with a view to application, the principles and methods of vocational guidance and employment counselling incorporated in the Vocational Guidance Recommendation, 1949

### MOBILITY OF LABOUR

In any employment market conditions, the adjustment of the supply of workers to current and prospective employment opportunities depends on the mobility of labour. There can be no doubt that, for countries in almost all stages of industrial development, a substantial proportion of post-war unemployment can be traced to the lack of sufficient occupational or geographical mobility in the labour force. Moreover, a large proportion of the long-term unemployment which is so difficult to absorb is caused by the unwillingness, or the technical, financial or personal inability of the workers concerned, to move from one occupation, industry or area to another.

The problem of mobility of labour has to be considered against the background of broader economic and social policy. In dealing with local congestions of unemployment, for example, it is often desirable to transfer workers to other occupations, industries and areas where there are labour shortages. It may sometimes be better, however, to encourage and assist the establishment of new industrial activity in the areas affected by severe local unemployment. The problems associated with such localised unemployment are discussed in chapter VII of this report.

In any case, in organising greater mobility of labour, it will be desirable for each Government to have information available on matters such as the location of industrial activity in relation to labour supply and demand, and the occupational and geographic distribution of labour supply in relation to the volume and character of the demand for manpower. This information will provide a more solid basis for arriving at the decision appropriate to each particular case where the reduction of unemployment appears to call for greater mobility of labour.

It has been suggested earlier that the essential requirement for high mobility of labour is a high level of employment. The existence of alternative employment opportunities is the key factor in facilitating greater mobility between occupations and areas as a means of preventing or overcoming certain types of unemployment. Apart from lack of jobs, the most important among the influences making for labour immobility seem to be (a) the lack of adequate and reliable information concerning job opportunities and working conditions in other occupations and areas and the living conditions in such areas—in particular, concerning the availability and suitability of the housing accommodation available, (b) personal resistance to a change of occupation or residence, or both, (c) lack of the necessary skill to fill the available jobs and of adequate and suitable training and retraining facilities to develop and adapt skill, (d) the cost involved in changing from one occupation or area to another, (e) restrictions on entry into various occupations, (f) differentials in wages, working conditions and the cost of living from one occupation, industry and area to another, and (g) lack of suitable housing in areas with job opportunities.

In almost all countries, unemployed workers dread a change of occupation or residence or both. Their lack of knowledge of suitable alternative employment opportunities is partly responsible for this negative attitude. But even where they may have been supplied with incontestable proof that re-employment in their own industry, occupation or area is virtually hopeless, a large proportion of the unemployed have a deeply-rooted personal and psychological resistance to moving from one occupation or area to another even if they can be guaranteed suitable employment at standard wages and conditions. While much of this resistance can, as suggested below, be overcome through adequate and appropriate financial assistance removing the financial obstacles to transference, the personal and psychological difficulties underlying immobility should not be underestimated.

So far as occupational mobility is concerned, for example, analyses made in the pre-war period in Belgium, Canada, France, Switzerland, the United Kingdom and the United States showed that as a rule resistance to change of occupation was particularly deeply-rooted among skilled and experienced workers and that, in the absence of special measures to encourage shifts into other industries and occupations, many of these workers were apt to be among the long unemployed, their skills lost to the economy. It has also been noted that many classes of unskilled or semi-

skilled workers tend to develop a strong attachment to the type of work with which they have acquired some familiarity. In the same way, a great many unemployed workers, especially married workers and older workers, have a deep resistance to moving from one area to another even if suitable employment is available and even if the employment is in their usual occupation and industry. They would naturally prefer to stay in the community to which they have belonged rather than break their ties and those of their families and start to build their lives anew in some unfamiliar place. Moreover, most unemployed workers have a general feeling of insecurity—natural in the circumstances—which tends to accentuate their reluctance to change their occupation or residence.

For the purpose of encouraging suitable changes of occupation, for example, information must be available showing which industries are expanding and which are contracting, what jobs are likely to be available in the expanding industries and occupations, what qualifications are required, and what wages and working conditions are offered. The provision of this kind of information, which is necessary to facilitate mobility of labour, is emphasised in the Employment Service Convention and Recommendation of 1948 as one of the essential tasks of the employment service. In a country where the employment service is operating with full efficiency, the service is in a position to supply this information to unemployed workers as a routine part of its work. The practical problem is to ensure that its technical work in this field is satisfactory from the standpoint of combating unemployment. At present it is doubtful whether many national employment services—if any—would consider that their efforts in this direction have been as intensive as the situation requires.

The employment service and related agencies can also take other action to help directly or indirectly to overcome personal and psychological resistance to transference. For the employment service alone, such action includes, apart from the maintenance of effective placement and clearance machinery, the expansion of vocational guidance and counselling facilities with personnel, time and funds to provide friendly and accurate advice to individual job-seekers who can no longer hope to find suitable work in their own occupations or in the local employment market; various types of campaign to overcome ill-founded prejudices which unemployed workers may have against other types of work or living in other areas than their own, general advice on training and retraining in relation to the needs of the unemployed and co-operation in the

organisation and provision of courses of training suitable for unemployed workers, drawing the attention of the competent authorities and of workers' and employers' organisations to the effect on labour transference of differentials in wages and working conditions among the different industries and occupations and of the cost of living in different areas, co-operation in measures aimed at improving the conditions and raising the prestige of less attractive industries and occupations in which jobs are available<sup>1</sup>, and continuous initiative in suggesting to unemployed workers steps likely to promote the volume and kind of labour mobility necessary in the employment conditions of each employment market area

*Definition of "Suitable Employment" in relation to  
Labour Mobility*

These various measures are designed primarily to enable the employment service to advise unemployed workers efficiently when they are called upon to take decisions about moving from one occupation, industry or area to another. It should be noted, however, that unemployed workers may be influenced more directly to change their occupation or area of residence. They may, for example, be called upon to do so under penalty of losing their unemployment benefit or allowance if they refuse to accept suitable employment offered by the employment service.

The conditions in which persons in receipt of unemployment benefit or allowance should be required, under penalty of refusal or suspension of such benefit or allowance, to accept available employment outside their own trade or occupation or area of residence are of the greatest importance in the application of policy to overcome unemployment by organising greater mobility of labour. In practice, the definition of the phrase "suitable employment" under unemployment insurance and assistance schemes varies with employment conditions. The problem is to keep the interpretation of the phrase sufficiently flexible to encourage greater mobility of labour, while safeguarding the worker's right to remain in his own trade or area so long as this is possible.

So far as change of occupation is concerned, laws, regulations

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<sup>1</sup> This may be particularly important in helping to bring women to accept employment in traditionally women-employing industries, e.g., domestic service, in which conditions are frequently unattractive.

and administrative instructions defining and interpreting "suitable employment" usually tend to preserve the right of the worker to refuse or accept employment outside his usual or a closely related occupation. But in a good many countries the definition of "suitable employment" is modified according to the duration of unemployment on the *prima facie* ground that the length of a person's unemployment is an indication of his prospects for re-establishment in his own occupation. The period during which an unemployed person may refuse to accept employment outside his usual occupation varies (commonly from eight to 13 weeks and sometimes longer according to the worker's insurance status) and is generally decided with regard to the circumstances of the individual case (*i.e.*, longer for skilled workers, particularly where a lower wage would be involved, shorter for younger and more adaptable workers, etc.) and the type of alternative employment available, including the conditions of work.

So far as transfer to other areas is concerned, the phrase "suitable employment" often includes employment in another place in certain circumstances, though in some countries the inclusion is indirect, since there is no explicit prohibition that a job in some other district shall not be considered suitable. Where an unemployed worker is offered suitable employment in another area, a number of different considerations affecting his relative mobility are taken into account in national law and practice. The most frequent of these seem to be the duration of unemployment, the age and family responsibilities of the unemployed person, the character of the job available in the new area (*e.g.*, its permanence, the wage offered and the conditions of work) and the housing accommodation available in the new place of work.

For the above reasons, among others, a close relationship between the employment service and the unemployment insurance and assistance authorities is of considerable practical importance in overcoming immobility of labour tending to create or prolong unemployment. The problems are of special concern to the trade union movement—and to organisations of unemployed workers where such exist—and can be solved more satisfactorily on the basis of knowledge of their point of view.

In conclusion, it would appear useful for the employment service, in co-operation with unemployment insurance and assistance authorities and, as appropriate, with the trade unions, to keep under continuous review the conditions in which available employment in an occupation or industry which is not the usual

occupation or industry of an unemployed person, or which requires him to change his residence, may be regarded as suitable for him

*Development and Adaptation of Skill Training  
and Retraining*

The basic means of facilitating necessary occupational mobility, however, is through the development and adaptation of skill—a task which lies in the training rather than the employment service field. Everywhere, at any time, unemployment falls heavily on unskilled and inexperienced workers. Not only is the risk of unemployment greater for such workers, but their chances of employment or re-employment are generally far fewer, and progressively so when the demand for labour is declining. Moreover, the lack of skill suitable in relation to existing and prospective employment conditions is an equally important factor in unemployment. Action to develop or adapt skill to the demand for it is required to prevent and combat unemployment. The primary means of so doing is through vocational training or retraining.

The question of the vocational training of unemployed persons, though it has been discussed for many years, has only recently been regarded as a permanently important part of employment market policy. The urgent need for it came to light in the depression. In that period, a good deal was done to train and retrain unemployed youth, and something was done in a few countries (*e.g.*, Belgium, France and the United Kingdom) to retrain adult workers. But on the whole the retraining of unemployed persons, though increasingly recognised both as a permanent solution to certain kinds of unemployment and as a necessary measure in time of general unemployment, has been a relatively unexplored field in most countries and much of the experience that has been gained dates from the last war.

Principles and methods of retraining unemployed persons vary considerably from one country to another, within each country, from one industry to another and from one occupation to another.<sup>1</sup> Training for the same occupation may vary from one

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<sup>1</sup> The question of the training and retraining of adults, including the unemployed, has been placed on the agenda of the 1950 Session of the International Labour Conference. A comprehensive report indicating national law and practice in this field has been published—Report IX (1): *Vocational Training of Adults, including Disabled Persons* (I.L.O., Geneva, 1949).



industry to another and from one locality to another. The training needs of unemployed young persons differ substantially from those of adults. The needs of inexperienced adults differ from those of skilled or experienced adults forced to change their occupation. Here, however, attention is drawn particularly to certain general points which seem of special importance from the standpoint of developing or adapting skill as necessary to encourage the occupational mobility required to overcome unemployment.

The first need of a practical programme for the retraining of unemployed workers is that it should be based on an objective analysis of the employment market and organised in direct relation to current and prospective manpower requirements. Increasing emphasis is being placed on this principle in countries all over the world, not only in those with a high level of employment, as in Australia, Norway and the United Kingdom, but also in those with relatively extensive unemployment, as in Italy, where the stated aim of retraining policy is to change or increase rapidly the skills of unemployed workers and adapt them to the requirements of the internal employment market and the possibilities of emigration.

It is not an easy task to relate training and retraining of all kinds to employment opportunities. Experience indicates, however, that it is essential to enlist the full co-operation of the employment service. The latter, as emphasised in the Employment Service Convention, has important responsibilities in helping to organise the occupational mobility required to adjust the supply of labour to employment opportunities in the different occupations and in providing the factual information required for this purpose. The Employment Service Recommendation suggests that the service should not only provide information and advice to job seekers but should also assist the competent authorities in establishing and developing the programmes of training and retraining courses (including apprenticeship, supplementary training and upgrading courses), selecting persons for such courses, and placing persons in employment after the completion of their training.

While the volume and character of training for any one industry or occupation must vary with existing and prospective employment opportunities, the facilities for training must take account of the characteristics of the unemployed—*e.g.*, their age, occupational background and prospects, and geographic location. Thus, in examining the adequacy of training facilities, their suitability in terms of the needs of the unemployed must also be considered if satisfactory results are to be achieved.

The need to make training practical also explains the greater emphasis now placed, notably in many European countries, on careful methods of selecting workers for training and retraining. The process of selection involves a study not only of occupational experience, technical qualifications (if any), and vocational aptitude, but also of other factors, *e.g.*, age, physical fitness, character, willingness to co-operate in training, length of unemployment, and prospects of securing fresh employment without further training or retraining.

The same need to make the retraining of the unemployed practical also explains the emphasis now laid on defining training requirements and working out training programmes on the basis of systematic analysis of the operations involved in each job and occupation. In retraining semi-skilled or skilled workers moving from one occupation to another, for example, this occupational analysis may be matched against an analysis of the worker's existing skill and experience, in an effort to adapt the training to his knowledge, using the trade knowledge he has as the point of departure for his retraining. The study of occupational relationships, or "job families", to see what is common to particular jobs and occupations, is another field to be further explored.

Retraining may take place on the job, in training centres attached to an undertaking, in separate public training centres, or in vocational schools or technical institutes of one kind or another. All these methods have been successfully tried in different countries. Usually more than one and sometimes all are used in a given country. The choice is based on a variety of factors, including the trade for which training is being given, the type of worker concerned, the facilities available, customary methods of training in the country and in the trade or occupation, etc. Where training is not given on the job or in the undertaking, experience shows that it is desirable that training conditions should approximate as closely as possible to conditions on the job.

Where training can best be given on the job or in a training centre attached to a private undertaking, and where this is the customary method of training other new workers for the undertaking, there is every reason to encourage the retraining of the unemployed through such facilities. Often this requires public intervention, more particularly financial assistance but also technical assistance (*e.g.*, in organising suitable training), and systematic campaigns to encourage employers not to overlook

or underestimate the potentialities of the unemployed as a source of labour supply. Where the Government is actively pursuing a policy of full employment, as is the case in a large number of countries today, public initiative to promote the expansion of private training opportunities for workers forced to change their occupation may be fully justified, both as immediate policy to overcome unemployment and as long-term policy designed to safeguard the future of the economy. The conditions in which public assistance to industry for this purpose may be granted, however, need to be carefully worked out to prevent both abuse of public funds and exploitation of the unemployed. But the experience of a number of countries during the recent post-war years indicates that workable solutions can be reached that are reasonably satisfactory to all concerned.<sup>1</sup>

However, retraining through private undertakings can only meet a part of the need for occupational mobility and in particular circumstances may not be the best method or may not be feasible. Public initiative then takes the form of public training centres or the use of vocational and technical school facilities for the retraining of unemployed workers. Belgian, British and French experience of retraining unemployed persons in special centres indicates the desirability of linking the centres closely with industry, through, *e.g.*, advisory committees of employers' and workers' representatives from the trades and occupations concerned. This serves not only to adapt the training to the exigencies of regular production but also to facilitate the re-employment of the trainees after training and to remove any idea among the trade unions that the trainees might be used as "blackleg" labour. It is equally essential to ensure that the standards of public training are such that a trainee completing his course is of a recognised standard of proficiency in the job or occupation for which he has been trained.

The extent of public training required will depend on the extent to which manpower requirements in the different industries and occupations change, and on the adequacy of private training facilities. If public training is to play its part in combating unemployment effectively, systematic arrangements will be needed at both the national and local levels for reviewing and revising the training programme in order to ensure that it is sufficiently flexible to meet the changing needs of the economy.

<sup>1</sup> See, for example, the details included in the I.L.O. vocational training monographs, No. 1. *Vocational Training of Adults in the United Kingdom* (Geneva, 1948), No. 2. *Vocational Training of Adults in Belgium* (Geneva, 1949), and No. 3. *Vocational Training in the United States* (Geneva, 1948).

In fixing the amount of remuneration to be paid during the period of training or retraining, the purposes of the schemes should be kept in mind as a determining factor. If these schemes are to be an effective agency of labour redistribution, remuneration during training has necessarily to be fixed at an amount which is sufficient to constitute an inducement to undergo and continue training, as well as to maintain a healthy and decent standard of living. It also has to be sufficient to encourage persons to enter longer courses of training for more skilled work, where the supply of skilled workers is, or threatens to become, inadequate. Moreover, if the training schemes are to achieve their end of encouraging occupational mobility and the continuous adjustment of labour supply to demand, there is a strong case for arranging for the wage or allowance payable during training to be paid regardless of individual need.

Frequently, the remuneration of persons in training tends to retain the character of unemployment benefit or allowance, even where the training is carried out by a private undertaking. In Belgium, for example, adults who are being retrained receive the ordinary unemployment allowance, which is fixed at 50 per cent of the minimum wage of an adult unskilled worker, even when augmented by family allowances and in some cases travel or *per diem* allowances, the total is always considerably below the amount of the starting wage of production workers in the undertaking. It is significant that it has been found necessary to increase this allowance by special bonuses to encourage the most suitable unemployed workers to retrain, and also to pay them, to some extent, for productive work performed during training. These special allowances and bonuses are also used in other countries, and make it possible to take greater account of the worker's past experience, age and so forth.

Where the training or retraining is carried out in public centres, projects or schools, the general policy in most countries is now to pay to the unemployed persons concerned the usual unemployment benefit or allowance to which they may be entitled. The problem here is whether this is sufficient to encourage the extent and character of occupational mobility needed to overcome unemployment caused by a lack of appropriate skill. In general, the experience of the past, though not conclusive, suggests that allowances to unemployed workers undergoing retraining to enable them to move into an occupation needing workers should be somewhat higher than the usual rates paid to unemployed persons. Other-

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wise, there tends to be a shortage of suitable trainees since, for financial reasons, many of these will be attracted to immediate if temporary employment or the shortest form of retraining available, regardless of their skills and aptitudes and often regardless of the manpower requirements of the economy

Where unemployed workers are not, for one reason or another, eligible for or covered by unemployment insurance or assistance schemes, special measures are needed to grant allowances to such workers while they are undergoing training or retraining courses that are approved by the public authorities as (a) practical in terms of opportunities for subsequent placement, (b) suitable for the worker concerned, and (c) organised so as to meet any minimum standards of training that may be laid down by the industry or the public authorities concerned. The importance of the problem is indicated by the fact that in the United States it was estimated in mid-1949 that as many as one out of four unemployed persons was not covered by or was no longer eligible for public unemployment benefits

The only alternative to policies of remuneration tending to encourage unemployed workers to undertake and complete courses of retraining is direct or indirect compulsion. For example, the unemployment insurance legislation in most countries now requires workers unemployed for a certain period to attend retraining courses if so requested by the administering authorities, under penalty of disqualification for or suspension of benefits if they refuse. Unemployment assistance legislation tends to include similar provisions. So long as these provisions are formulated and applied with care so that they do not do injustice to the unemployed but instead guide them towards re-employment opportunities, they cannot be considered unreasonable. They are, in fact, a necessary precaution against long-term unemployment and the burden it imposes on the unemployment funds and the economy as well as on the unemployed themselves.

The duration of training or retraining for unemployed persons will depend on the level of skill to be attained at the end of training and the fact that adults have to be prepared as rapidly as possible for entry into regular productive work. Two related considerations may be noted. First, inadequate or obsolete skill is an important cause of unemployment, and this deficiency of employment market organisation has to be overcome through training and retraining. Secondly, having regard to the heavy financial charges involved in organising the retraining of the unemployed and paying allow-

ances to the workers and their families, there is a need to make the training as intensive as is consistent with effective acquisition and retention of the necessary knowledge

Problems of vocational training and retraining have been studied by the I L O. for many years, both in general, in regard to particular groups of workers and particular industries and occupations, and in regard to particular regions. The permanent importance of the training of young persons, including unemployed youth, needs no emphasis. The standards adopted by the International Labour Conference on the training of young persons are included in the Apprenticeship and Vocational Training Recommendations of 1939. Training is recognised everywhere as an essential aspect of their employment or re-employment. Increasing importance is now attached to the training of adults as a means of adapting labour supply to demand, preventing as well as overcoming unemployment, and developing the productive skill required for industrial progress. The question of their training and retraining has therefore been placed on the agenda of the 1950 Session of the International Labour Conference, which will consider the principles and methods of training and retraining which can contribute to the solution of manpower problems, including those of unemployment and underemployment. The Conference, in considering this question, will naturally wish to take full account of the need to maintain adequate and suitable training opportunities for the unemployed as a means of combating unemployment.

### *Geographical Mobility of Labour*

The persistence of severe local congestions of unemployment has been a characteristic of the post-war employment situation, even in countries with an over-all manpower shortage. As in the inter-war period, these congestions have been acute in areas heavily dependent on one or two industries. The lack of diversity of economic activity in such areas has made them particularly vulnerable to unemployment which gradually spreads beyond the main industries and depresses local activity of all kinds.

As suggested previously, there are two principal methods of attacking this problem of localised unemployment. One is to transfer the workers to other areas where there are labour shortages, the other is to encourage and assist the establishment of industrial activity in the areas affected by unemployment. This section accordingly deals with the organisation of the geographical mobility

of labour The location of industrial activity is discussed in chapter VII

Where an analysis of the national and local economic and employment market situation indicates that it is clearly desirable to seek to transfer a number of unemployed workers to areas with suitable employment opportunities, the chief obstacle to be overcome is usually of a financial character To an individual unemployed worker, the financial problems raised by moving to another area, and possibly transferring his family and household belongings as well, are usually insuperable The costs of transfer constitute a burden which, with the best will in the world, he cannot meet unaided and which effectively prevents his moving If therefore the transfers regarded as desirable are actually to take place, it is essential to overcome these financial obstacles

The I.L.O. Employment (Transition from War to Peace) Recommendation of 1944 urged, on the basis of a survey of national law and practice, that where a worker is transferred from one area to another on the initiative or with the consent of the employment service, arrangements should be made to grant travelling expenses and to assist the worker to meet initial expenses in the new place of work by granting or advancing him a specified amount, fixed according to the circumstances It was recognised that this provision was applicable not only in the transition period but also in post-war employment market conditions generally Thus, a somewhat similar provision, included in the Employment Service Recommendation of 1948, places on the employment service a clear responsibility for removing economic obstacles to geographical transfers that it considers necessary and for providing financial assistance for this purpose, the amount to be determined according to national and individual circumstances The application of such provisions can help to combat types of local unemployment which can be overcome through transference, and to ensure that individual unemployed workers are not called upon to pay the bulk of the expenses involved in transfers undertaken on the advice of or through the employment service Such provisions would of course not apply where other arrangements existed for the payment of the expense involved in transfer, *e.g.*, where the employer, by custom or agreement, pays the expenses

In addition, the promotion of geographical mobility of labour requires effective machinery for clearing job vacancies and applications for employment from one employment market area to another A cursory survey of the use made of existing machinery since the

war suggests that, although there are serious difficulties in ensuring expeditious and satisfactory placements in this way, many of the possibilities of clearance machinery do not yet seem to have been fully explored from the standpoint of overcoming unemployment.

In many countries the shortage of housing is an important obstacle to the transfer of labour from one area to another and, in fact, makes any large-scale transfers impracticable. Experience in Australia, Canada, New Zealand, Sweden and the United Kingdom has indicated that a worker's difficulty in finding a suitable house to buy or to rent in areas where work is available constitutes a major barrier to his transfer and greatly reduces geographical mobility in the labour force. The problem is one of both the quantity and the quality of the housing accommodation available. Arrangements for acquisition are also important. In some countries, home ownership has been found to militate against labour mobility, on the other hand, the possibility of owning, rather than having to rent, housing in a new area may be an attraction. There is also the question of cost and especially of the effect of rent controls on those who move to new areas. Under many of the present controls, workers moving to employment in a new area do not always benefit from rent control but on the contrary may have to pay a rent far out of line with that paid by the workers who have been living in that area for some time.

Measures to ensure adequate and appropriate housing in areas with employment opportunities appear, therefore, to be an indispensable feature of policy to promote inter-area labour mobility. From the standpoint of employment market policy, it is useful to ensure close co-operation between the employment service and the authorities responsible for formulating and carrying out housing policy, in order that housing measures may take full account of the requirements of employment market policy aimed at overcoming unemployment.

### *Temporary Transfers*

In certain circumstances, temporary transfers of workers from one industry or occupation and area to another may be the best means of combating unemployment. This may be a particularly useful method of overcoming certain types of seasonal unemployment, of meeting problems of short time and unemployment in industries, occupations or localities in which employment opportunities are expected to recover in the future, and of helping to



increase labour mobility in particular industries (*e g.*, dock labour and construction) as a necessary feature of decasualisation schemes. The employment service, since it is in a position to know the general employment situation, can judge whether or not temporary occupational or geographical transfers offer a practical solution to particular problems of localised unemployment. Where they do, the service can facilitate such transfers, in particular by providing financial assistance to workers who agree to move to temporary employment in other areas. Hence, the Employment Service Convention, 1948, includes a provision to the effect that the employment service shall take appropriate measures to facilitate temporary transfers of workers from one area to another as a means of meeting temporary local maladjustments in the supply of or the demand for workers.

Finally, arrangements to ensure that temporarily transferred workers do not forfeit suitable local employment opportunities by their absence from home would make workers more willing to accept temporary transfers. In the United Kingdom, arrangements for this purpose have taken the form of a special register kept in the employment exchange in the worker's home area.

### *Effect of Wage, Working Conditions and Cost-of-Living Differentials*

Differentials in wages, working conditions and the cost of living from one occupation, industry and area to another exercise a great influence on the mobility of labour. Unemployed workers will tend to be more willing to move to a new occupation or area if the employment offered does not involve too great a drop in their usual wages and working conditions and their accustomed standard of living. Labour mobility will be encouraged, for example, where wages respond readily to changes in the relative demand for different types of skill. This was pointed out by the League of Nations Delegation on Economic Depressions, which accordingly urged that trade unions should think and act in terms of economic activity as a whole rather than in terms of their own craft or industry alone.<sup>1</sup>

It is perhaps partly from this standpoint that existing differen-

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<sup>1</sup> LEAGUE OF NATIONS *Report of the Delegation on Economic Depressions*, Part I. *The Transition from War to Peace Economy*, Part II. *Economic Stability in the Post-War World* (Geneva, 1943 and 1945). See especially chapter XV of Part II.

entials should be examined, with a view to removing obstacles to transference required to overcome unemployment. The relationship of existing differentials to unemployment is, however, only one consideration to be taken into account. Action to modify existing differentials could only be based on the close co-operation of employers' and workers' organisations. Where this basis exists, the Government may successfully intervene to assist, as required and as appropriate in the national or local circumstances, in lessening differentials found to be a deterrent to the necessary mobility of labour, as well as in assisting the actual movement of workers.

#### ACTION TO FACILITATE THE RE-EMPLOYMENT OF PARTICULAR GROUPS OF WORKERS

The incidence of unemployment is particularly heavy among certain groups of workers. These groups invariably include the two extremes from the standpoint of age, young persons and older workers. They also include women (particularly married women), disabled persons, foreign workers and minority groups of all kinds. In addition, intellectual workers, independent workers and seasonal workers in industry and agriculture have special problems of unemployment which persist in conditions of full employment and are gravely aggravated in a period of developing or general unemployment. The main question for the purposes of the present report is to consider the action necessary within the framework of general employment market policy to combat the special problems of unemployment of such groups of workers and to facilitate their employment.

##### *Young Workers*

Unemployment among young workers raises specially serious problems. As the Unemployment (Young Persons) Recommendation of 1935 points out, involuntary idleness among young persons just when they should be taking their first steps in their vocational careers "may undermine their characters, diminish their occupational skill and menace the future development of the nations". Since the second world war, the problem of unemployment among young persons has again given rise to anxiety, not only in countries such as Italy, where there is high unemploy-

ment, but also in a number of other countries where unemployment is less severe

Efforts to deal with the problem over the last 20 years have indicated two fundamental principles of action. First, that special measures are required to deal with the unemployment of young workers, but that the problem can only be solved within the framework of general economic and employment market policy. Secondly, that even in an emergency, measures for combating unemployment among young workers must be based on sound long-term policies, directed towards achieving full development of the skills and constructive use of the services of young persons.

Thus, many of the measures to which attention has already been directed in this chapter provide the framework of action against unemployment among young persons. Given adequate statistical data, planned and co-operative recruitment, effective counselling and placement services and organised mobility of labour, for example, much can be done to prevent unemployment among young persons and to combat existing unemployment.

Briefly, the following suggestions, based on national experience of dealing with the problem of unemployment among young workers and on the standards laid down in international regulations, may be proposed as a minimum programme of action to alleviate and overcome the problem.

In the first place, it would seem appropriate to continue efforts to raise the school-leaving age in countries where this age is still below 16 years. As the I.L.O. has repeatedly emphasised, such action, apart from its desirability on other grounds, is indispensable for well-rounded vocational training, and training, besides raising productivity, reduces the individual worker's susceptibility to unemployment. Lack of adequate education is an important cause of unemployment among young persons and also among the same young persons when they become adults. Education is also helpful in developing versatility and skill.

Secondly, it would seem equally appropriate to take increasing public initiative to ensure that young persons have access to higher education and training. The mere availability of free public education and training at every stage (a goal which has not yet been attained very widely) is not enough to provide adequate educational opportunity, as the experience of the most highly developed countries indicates. Some form of maintenance allowance for education or training is necessary in a great many cases. As a means of providing opportunities for young persons with

ability to continue their education and training, it may be a useful measure of public policy to develop a broad aid programme for young persons reaching school-leaving age and, indeed, up to a later age. Where this is done, it will be desirable to have the conditions of eligibility for such allowances determined by the agencies primarily concerned with youth employment (namely, the education, vocational guidance, placement and training authorities), in co-operation with those concerned with the relief of unemployment.

Thirdly, vocational guidance services for young persons are an essential means of combating unemployment among young persons. Together with training services, they constitute a first line of defence against the development of such unemployment, and help to overcome unemployment which has arisen. The International Labour Conference has already stressed the importance of vocational guidance services for all young persons, and especially for the unemployed, and it may be strongly urged that guidance facilities should be developed and expanded without delay along the lines laid down in the Vocational Guidance Recommendation, 1949.

Fourthly, systematic arrangements for ensuring that the great majority of juveniles leaving school are registered with the employment service provide the basis for enabling this service to supply the kind of advisory assistance—above all, vocational guidance and placement—needed to prevent unemployment, by diverting young persons entering the employment market away from blind-alley employment and overcrowded industries and occupations and helping them to select industries and occupations with available and suitable employment opportunities. In this way, the flow of youth into industry may be guided to the benefit of all concerned.

Fifthly, apprenticeship opportunities and other facilities for the systematic training of youth should be maintained and where necessary expanded. Most unemployed young persons are unskilled and, as the British Unemployment Assistance Board pointed out in its report for 1938, only able to offer the employers labour of a kind of which there is generally a superabundance<sup>1</sup>. They have had no systematic training or work experience. Many of them have been the victims of blind-alley employment, which is one reason why youth unemployment tends to be higher than

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<sup>1</sup> UNITED KINGDOM, UNEMPLOYMENT ASSISTANCE BOARD *Annual Report, 1938*.

general unemployment. Their crying need is for training to give them employability, to develop the skills required by the employment market, and to assure their entire vocational career.

Experience suggests the desirability of maintaining such facilities in the face of any increase in unemployment, and not contracting them in direct proportion to any decrease in employment opportunity for young persons, as occurred during the 1930's

It is especially important to provide unemployed youth not only with adequate and varied training but also, wherever possible, with some form of practical work experience. The lack of such experience tends to accentuate their difficulty in finding suitable employment in the trade or occupation for which they have prepared, particularly when they have to compete with older and more experienced applicants for employment, as in a period of general unemployment. There are various means of providing young persons with work experience as a part of training, even where no immediate opportunities for employment exist. The pre-war experience of the United States with work programmes for unemployed youth is particularly suggestive, for example, and will certainly be of practical use to other countries for many years to come.<sup>1</sup>

Lastly, the importance of effective youth placement facilities, including arrangements for follow-up, cannot be overestimated as a means of improving employment market organisation for youth. The Employment Service Convention of 1948 includes an article providing that special arrangements for juveniles shall be initiated and developed within the framework of the employment and vocational guidance services. These arrangements are essential for avoiding, so far as possible, the evil of blind-alley employment, for co-ordinating education, guidance and training services with placement in suitable employment, and generally for helping to ensure the satisfactory adjustment of youth to work. The Unemployment (Young Persons) Recommendation, 1935, urged that, to promote opportunities for employment of young persons, employers should be required to notify the local employment office (or youth placement office) of vacancies for young persons and of engagements made without recourse to the office. It also suggested that the youth employment services should be

<sup>1</sup> For a summary of these programmes, cf. *International Labour Review*, Vol XL, No 6, Dec 1939, "Assistance for Unemployed Youth in the United States"

required to supervise the results of the placements made, with a view to obtaining information likely to further the occupational prospects of juveniles, and that they should maintain close contact with all other public and private agencies concerned with youth education, training, employment and working conditions. Finally, the Recommendation urges the youth placement services to provide special assistance to unemployed youth of 18 years of age and over, with a view to helping them find suitable employment—for example, through transfer to expanding industries, occupations and areas.

### *Older Workers*

Older workers (generally defined as those over 45) also have specially difficult employment problems. While their chances of retaining employment are fairly good as a rule (except in certain kinds of work)—and sometimes (*e.g.*, in skilled occupations) better than those of other workers—they have more difficulty in finding new employment once they have lost their jobs.

It is only necessary to remember the difficulties of older workers during the depression. They were not only unemployed in large numbers but they were invariably and increasingly among the long-unemployed—the hard core of each country's unemployment problem. The second world war gradually broke down prejudices against their employment and showed how far the pre-war prejudices had been based on factors unrelated to an older worker's qualifications to perform his work satisfactorily. Since the war, however, the problem of unemployment among older workers has emerged again and in some countries is an extremely stubborn problem.

The position of older workers in the United States employment market is summarised as follows, on the basis of a sample study of recent experience of older job seekers in six selected communities with widely varying employment situations <sup>1</sup>

(1) In labour markets where unemployment is small, unemployment among older workers is less by a substantial margin than among younger workers.

(2) As unemployment increases, employer specifications with respect to age are tightened, and the percentage of older workers among job seekers rises. In a very loose labour market, older workers become over-represented among job seekers, and employers with a much larger reserve to choose from become increasingly reluctant to hire them.

<sup>1</sup> *The Labor Market* (Washington), June 1949.

(3) In both tight and loose labour markets, older workers, once separated from employment, take longer to find jobs. If not re-employed in their regular work, they are nearly always downgraded in skill and pay.

(4) Indications are that older workers exhaust unemployment insurance benefit rights sooner than younger workers.

(5) On the other hand, the increased number of establishments covered by collective bargaining agreements having seniority provisions has apparently reduced the extent to which older workers are laid off.

(6) Older workers encounter employment difficulty in various degrees according to occupation, industry and worker characteristics. Employers place low age limits on unskilled jobs that require the exercise of physical strength. On the other hand, in service occupations, normally low paid and undesirable, there are fewer restrictions against the hiring of older workers. Similarly, age restrictions in skilled jobs which require long training periods are not too rigid. For most of the white-collar jobs and for the semi-skilled openings age restrictions are quite rigid. Variations in the employment of older workers are also evident, by industry and by personal characteristics of job seekers. But this is to a large extent the result of the kind of jobs, by occupation, that industries have.

(7) Although the number of unemployed workers is still relatively small, the difficulties in obtaining re-employment for older workers, once they are laid off, point to the possibility of the intensification of heavier unemployment among older workers. This will be especially true if unemployment continues its upward course.

Canada has also made a recent analysis of employment and unemployment problems among the older workers since the war.<sup>1</sup> The study indicated that, while the rate of unemployment among older workers was not disproportionate to that of the rest of the labour force, re-employment was more difficult for them than for younger workers and often involved downgrading of their wages and type of work.

Certain western European countries have also experienced some difficulty in placing or replacing older workers in suitable employment during the last year (1949), as one result of a perceptible loosening of the employment market.

The lesson to be drawn from the experience of the past is that older workers do not automatically have full employment opportunities and that various forms of action can be taken to ensure to them equality of access to jobs for which they are qualified. Systematic campaigns by the employment service to break down prejudice against older workers and co-operative action on the part of trade unions, employers and employers' organisations are helpful in facilitating the re-employment of older workers, as the experience

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<sup>1</sup> Cf. *The Labour Market* (Ottawa), June 1949, p. 9.

of several countries has indicated, and in expanding employment opportunities for older workers on the basis of their qualifications to perform their work satisfactorily. Adequate employment counselling services and placement facilities to meet the needs of these workers are also necessary. The selective placement techniques, based on studies of the physical requirements of jobs and the physical capacities of the workers, can be extremely useful in fitting older workers into suitable occupations and jobs. The development of sufficient and suitable retraining opportunities for them, based on analysis of their training needs and capacity to absorb training, and also on concrete re-employment prospects, has been found to be equally important.

### *Disabled Persons*

Disabled persons are not a separate group and should not be so considered. Given adequate training and employment opportunities, most of them take their place alongside so-called "able-bodied" workers and work in the same conditions. However, like older workers, a large number of disabled persons may be particularly vulnerable on the employment market. They have to combat prejudices unrelated to their merits, and when they become unemployed they have many of the same difficulties as older workers in finding new employment suitable for them. The measures suggested above have equal validity for dealing with the special re-employment problems of these categories of disabled persons. Such persons may need specialised counselling and placement services within the general employment service arrangements, and in many cases their retraining involves special analysis and sometimes requires special facilities. Broadly based campaigns to combat employers' prejudices against engaging disabled workers are also necessary, and their success can only be ensured by enlisting the co-operative support of employers' organisations and trade unions.

The I.L.O. has already suggested certain methods of applying the general principle that disabled workers should be provided with full opportunities for employment for which they are qualified or can be prepared. These, which were included in the Employment (Transition from War to Peace) Recommendation, 1944, may be quoted in full.

39. The criterion for the training and employment of disabled workers should be the employability of the worker, whatever the origin of the disability.



40 There should be the closest collaboration between medical services for the disabled and vocational rehabilitation and placement services

41 Specialised vocational guidance for the disabled should be developed in order to make it possible to assess each disabled worker's capacity and to select the most appropriate form of employment for him.

42. (1) Wherever possible, disabled workers should receive training in company with able-bodied workers, under the same conditions and with the same pay

(2) Training should be continued to the point where the disabled person is able to enter employment as an efficient worker in the trade or occupation for which he has been trained.

(3) Wherever practicable, efforts should be made to retrain disabled workers in their former occupations or in related occupations where their previous qualifications would be useful.

(4) Employers with suitable training facilities should be induced to train a reasonable proportion of disabled workers.

(5) Specialised training centres, with appropriate medical supervision, should be provided for those disabled persons who require such special training

43 (1) Special measures should be taken to ensure equality of employment opportunity for disabled workers on the basis of their working capacity. Employers should be induced by wide publicity and other means, and where necessary compelled, to employ a reasonable quota of disabled workers

(2) In certain occupations particularly suitable for the employment of seriously disabled workers, such workers should be given preference over all other workers.

(3) Efforts should be made, in close co-operation with employers' and workers' organisations, to overcome employment discriminations against disabled workers which are not related to their ability and job performance, and to overcome the obstacles to their employment, including the possibility of increased liability in respect of workmen's compensation

(4) Employment on useful work in special centres under non-competitive conditions should be made available for all disabled workers who cannot be made fit for normal employment

44 Information should be assembled by the employment service in regard to the occupations particularly suited to different disabilities and the size, location and employability of the disabled population

Since 1944, many of these principles have been made a part of national practice, and it may be expected that the further application of these provisions, nationally and locally, will help to combat unemployment among the disabled and will in fact gradually secure to the disabled, on their merits, access to the jobs for which they are qualified, and the means of obtaining the qualifications needed to fill available jobs

*Other Groups of Workers*

Certain other groups of job seekers within each country also hold a particularly vulnerable position in the national employment market. In many countries, there are special prejudices against various groups in the employment market, arising, for example, out of the race, nationality, or political and religious convictions of the persons concerned and with no relation to their abilities as workers

During the second world war, the overpowering demand for manpower broke down many barriers to the access to employment of these groups of workers. As in the case of older workers, however, this did not always happen automatically, and various forms of persuasion from Government agencies and the close co-operation of employers' and workers' organisations were necessary to ensure full use of these sources of labour supply even in time of full employment. In all cases, there was a time-lag in the utilisation of these workers, as is perhaps to be expected in overcoming any deeply rooted prejudice

The problem for the post-war period has been to consolidate the gains made during the war and to continue to combat, on the basis of war experience, discrimination in employment not related to ability and job performance. A period of developing unemployment presents special dangers to minority groups in all national employment markets. The prevention of unfair employment practices towards any group of workers will require different procedures in different countries. As a basis it would appear useful that there should be some clearly expressed statement of non-discriminatory and fair employment policy, as has been made, for example, in some parts of the United States. Such a statement of principle might well be considered with special reference to the needs of the unemployed in each country.

Merely to set forth principles, however, is not enough. To be effective, any set of principles has to be widely publicised and understood and wisely put into action. It would, for example, need the full support of employers' and workers' organisations as well as of all Government agencies. The type of arrangements needed to apply fair employment policy and avoid intensification of unemployment among special groups in the labour market would need to be based on close co-operation with management and labour in all phases of the work.

## UNEMPLOYMENT AMONG WOMEN

Women, while an increasingly important part of each national labour force, can hardly now be regarded as a special group in the employment market with special needs. The gradual trend of policy is to recognise what special difficulties individual cases may present, but to solve their problems on the same lines as those of other workers. The I.L.O. has adhered to this principle for many years and considers that the employment of women—and unemployment among them—can only be dealt with on this basis in the long run.

Attention may nevertheless be drawn to the fact that during the last depression women were apt to encounter prejudice in employment and re-employment—that is, they were sometimes thrown into unemployment rather because of their sex than their merits, and they found it difficult because of their sex to find new jobs for which they were qualified. This was particularly the case for married women, irrespective of their family responsibilities and other considerations. This policy proved to be somewhat misguided. Studies made by the I.L.O. over that period indicated that the effort to decrease the supply of women workers had no real beneficial effect, even as a palliative, on the employment market, and in practice merely accentuated the general unemployment problem.<sup>1</sup>

It may therefore be hoped that, as is consistent with the standards already established by the I.L.O., the distribution and redistribution of women workers in the economy will increasingly be based, in principle and in practice, on their ability to perform the work in question—on their merits and without regard to sex.

One further factor affecting the re-employment of women may be noted. In many cases, conditions prevailing in traditionally women-employing industries and occupations are such as to deter women from seeking employment in them. Improvement of these conditions will help to persuade women unemployed in other industries and occupations to move towards industries and occupations where employment opportunities may be available. Measures to this effect may make a positive contribution to national employment market organisation in many countries.

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<sup>1</sup> Cf. *International Labour Review*, Vol. XXVII, No. 4, Apr. 1933, and No. 5, May 1933: "The Economic Depression and the Employment of Women", and Vol. XXXI, No. 4, Apr. 1935: "Unemployment and the Placement of Women".

## CHAPTER VI

### DEPRESSED AREAS

#### NATURE OF THE PROBLEM

Most unemployment that is not due either to a deficiency in aggregate demand or to a shortage of capital can be dealt with by improved organisation of the employment market along the lines described in the preceding chapter. The workers concerned can be helped to move from industries and areas in which employment opportunities are shrinking to industries and areas in which employment opportunities are expanding. There is, however, an important exception which calls for further measures. Where unemployment is concentrated in particular depressed areas the large-scale transfers of population that would be needed to move all of the unemployed to more prosperous areas would involve serious individual and social costs which might be obviated, or at least greatly reduced, by bringing new industries to the depressed areas. Part of the problem may be solved by moving workers to other areas, but the most effective policy may be to bring new jobs to the workers.

Where a large proportion of the labour force in a particular town or district is out of work for long periods, the human cost to the unemployed workers and their families in terms of loss of skill, work habits and morale is bound to be unusually heavy. Moreover, the community as a whole is affected. Local relief services are strained, tax rates may have to be increased, tax delinquency and the bankruptcy rate among local shopkeepers and other firms may rise, and both public and private credit are likely to suffer. The effects may indeed spread far beyond the area concerned. Both aggregate demand and business confidence are likely to be more depressed by concentrated unemployment in a few areas than by the same total volume of unemployment distributed evenly throughout the economy. In the interests of the economy as a whole, therefore, as well as in those of the depressed areas, prompt remedial action is essential.

Depressed areas develop in two main ways. First, a depletion

of natural resources may leave the population of a particular district or region virtually stranded, part unemployed and part underemployed. Such depletion may be preventable, as in the case of soil, grass cover, forests or fisheries. Or it may be an inevitable consequence of the use of natural resources, as in the case of mineral deposits and natural gas and oil fields. Examples of depressed areas arising from depletion of resources are the four large stranded areas which have developed in the United States, namely the Great Lakes Cut-Over Region, the Great Plains Dust Bowl, the Old Cotton Belt and the Southern Appalachian Coal Plateau.<sup>1</sup>

Secondly, depressed areas may develop in communities whose prosperity is dependent primarily on the sales of one or a few products or on sales to a particular market. If such sales fall off sharply, the entire community may be quickly thrown into economic depression. In some communities, for example, there is a high degree of dependence upon capital goods industries. As is well known, capital goods industries in industrial countries suffer much greater fluctuations in employment and production than do consumer goods industries. This is due to the fact that because of the durability of plant and equipment, purchases of such items can be much more readily postponed in periods of deflation than can purchases of consumer goods, particularly non-durable consumer goods.

In other cases, a depressed area may develop as a result of permanent changes in the demand for a particular commodity. For example, some areas in Italy, France, China and Japan have been adversely affected because of the increasing substitution of synthetic fabrics for silk.<sup>2</sup> Similarly, countries specialising in shipbuilding are likely to find the long-term replacement and maintenance demand much less than adequate to provide full employment in shipyards the capacity of which was expanded to build up wartime fleets and to replace war losses. For example, there are already indications in the United Kingdom that the saturation of such expansion demand may not be too far distant.<sup>3</sup> Depressed areas have also developed in munition centres. Boom towns in war, these areas have sometimes become ghost towns in peace with a high rate of unemployment.

Finally, some communities and even countries may be in a

<sup>1</sup> Cf. Carter GOODRICH and others *Migration and Economic Opportunity* (Philadelphia, University of Pennsylvania Press, 1936).

<sup>2</sup> Cf. FOOD AND AGRICULTURE ORGANISATION *World Fiber Survey* (Washington, D.C., 1947), pp. 109-116.

<sup>3</sup> *The Economist*, 22 Oct. 1949, p. 884.

highly vulnerable economic position because of their dependence on export markets. If demand in these markets suffers a great and prolonged decline, severe and persistent unemployment may develop in the producing areas concerned. For example, the Government of Ceylon points out in its reply to the United Nations questionnaire that its economy is almost entirely dependent on the export trade of tea, rubber and coconut products. Consequently, even slight changes in the price or volume of the exports of any of these products may have serious consequences on the level of employment. Newfoundland represents another case of an area which has experienced severe depression as a result of its high dependence on the export markets for fish and fish products<sup>1</sup>

The problem is not limited to countries which export raw materials or foodstuffs. The experience of the United Kingdom in the inter-war period showed how depressed areas can develop in a highly industrialised country owing to a shrinkage in export markets. In July 1932, when unemployment was at its peak, four depressed areas had approximately 38 per cent of their insured population out of work as compared with an average of 19 per cent in the United Kingdom as a whole. The industries which were highly dependent upon markets abroad included coal mining, iron and steel, shipbuilding, marine engineering, certain other kinds of engineering and tin-plate, employing altogether an average of more than 50 per cent of the total insured labour force in these areas<sup>2</sup>

#### MEASURES TAKEN OR CONTEMPLATED

Apart from transfers of workers of the kind mentioned in the preceding chapter, measures taken against concentrated unemployment in depressed areas have been of two main types. Some Government programmes have aimed at alleviating unemployment in depressed areas by measures of an essentially short-run and emergency nature. Thus a compensatory fiscal policy may concentrate on directing various types of financial assistance into the communities which are most severely affected by a deflationary trend. In other cases, Governments have embarked on long-run programmes designed to reduce the vulnerability of depressed

<sup>1</sup> BANK OF NOVA SCOTIA. *Monthly Review*, June 1949

<sup>2</sup> *Distribution of Industry*, Cmd 7540 (London, H.M. Stationery Office, 1948), pp. 6-7

areas to future unemployment. The object of these programmes has generally been to promote diversification of industry in order to make the area less dependent upon the demand for one or a few major products.

An example of the first type of programme is to be found in the United States, where the President in 1949 designated 11 industrial communities in which 12 per cent. or more of the labour force was thrown out of work as "distressed areas" which should be the object of special governmental attention. So far, two major measures have been adopted in an effort to stimulate re-employment in the affected areas. The President has called for an acceleration of all public construction activities<sup>1</sup> and he has requested Federal departments engaged in purchasing materials and services to transfer all possible buying into these areas.<sup>2</sup>

A long-term programme of industrial diversification may take different forms depending on the employment pattern and needs of a particular area. In some communities what is needed is to attract industries which reach their seasonal peaks of activity at different times of the year from those already located in the area. For example in the selective promotion plan developed for Worcester, England, by a research team from the University of Birmingham, industries were preferred which would offset the regular winter recession in employment<sup>3</sup>, while the Cincinnati, Ohio (United States), selective promotion plan sought to preserve the existing stable pattern of employment by not attracting seasonal industries.<sup>4</sup>

Areas concentrating on the production of capital goods, mining or construction may achieve greater stability by attracting industries which are least sensitive to cyclical fluctuations, such as food processing or the manufacture of non-durable consumer goods. Some communities may need expanding industries to replace the labour demands of declining industries. Other communities may need to attract industries which will provide employment for particular groups in the labour force, such as women, the aged, or workers in certain skilled occupations. For example, in the two selective promotion programmes mentioned above,

<sup>1</sup> *New York Times*, 15 July 1949, p. 5.

<sup>2</sup> *Idem*, 10 Aug 1949, p. 1.

<sup>3</sup> Janet GLAISYER, Tom BRENNAN, Walter RITCHIE and P. Sargent FLORENCE, *County Town* (London, John Murray, 1946), pp. 84-87.

<sup>4</sup> CITY PLANNING COMMISSION OF CINCINNATI, *The Economy of the Cincinnati Metropolitan Area* (Cincinnati, 1946), pp. 64-69, and Appendix J, pp. 98-102.

Cincinnati wanted more jobs for women, older workers and Negroes, while Worcester needed more jobs only for women.

A policy of diversification of industry cannot be pursued without regard to costs. If, as a result of governmental pressure or other factors, industries which cannot operate on a competitive basis in the area concerned are attracted to it, these industries may fail, and valuable productive resources may be wasted. Or, if industries are induced to move into a depressed area merely by the grant of subsidies, they may constitute a permanent drain on the real income of the community and of the country as a whole. On the other hand, Governments are in a position to consider costs involved in industrial location which private entrepreneurs cannot be expected to take account of. A permanent movement of industry and population away from depressed areas in search of better opportunities elsewhere involves great individual and social costs. Not only will there be large social losses of investments in community facilities, but substantial private investments in land improvements and buildings will also be lost. In addition, large costs will be involved in resettling individuals and families in other communities. In order to avoid these individual and social costs, Governments will be justified in encouraging the location of new industries in depressed areas through different types of financial assistance, if these industries, after being firmly established, can successfully compete in the national market.

The problems of planned location of industry and the possibilities of taking effective action differ according to circumstances.<sup>1</sup> In some countries it may be necessary to act quickly to meet the situation in a particular area threatened with increasing or continued unemployment. Considerations of this kind led to the grant of wide powers to the United Kingdom Board of Trade under the Distribution of Industry Act, 1945, with a view to preventing a return of heavy unemployment in the pre-war "distressed" areas. On the other hand, where the immediate urgency is less, planned distribution of industry may be effected indirectly, through loan and credit policy, land use controls, and notably through public works policy. As between countries, the problems of planning future industrial distribution differ according to the stage of the country's industrial development and the nature of its industrial

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<sup>1</sup> For a comprehensive discussion of the problem of industrial location, particularly as it relates to problem areas, see Edgar M. Hoover *The Location of Economic Activity* (New York, McGraw Hill, 1948), notably chapters 11 and 14-17.



activities The appropriateness of different methods of planning or influencing the location of new industrial activity in relation to the location of labour supply will also differ according to the constitutional, administrative and fiscal powers of the national authorities and to traditions of public intervention in the economic sphere For example, co-ordinated action on a national scale is at present more practicable in the United Kingdom and in a number of other European countries than in the United States, with its States and other constitutional differences and varied traditions

The first preliminary step in any programme for relating the location of new industrial investment to the supply of labour is naturally a survey of the factors involved Information is needed concerning the employment history of the areas concerned, including fluctuations in employment, the duration of unemployment, the categories of workers affected, and the causes of the unemployment, details of the industrial pattern and history of the areas and their present levels of industrial activity, factors attracting industry to the different areas or vice versa, the possibilities for economic development as affected by local supplies of materials, industrial sites and equipment, labour, power, etc, and the needs of the areas for housing and community services. As regards the selection of areas in which action can be taken against unemployment by planning the location of industry, British experience indicates the importance of planning the distribution of industry in any particular area with full regard to the whole economic unit to which the area is related <sup>1</sup>

The present development areas programme in the United Kingdom <sup>2</sup> grew out of earlier British experience under the Special Areas Act, 1934 The 1934 Act was designed to deal with an especially grave unemployment situation which had developed in four major areas in the United Kingdom A commissioner was appointed for each special area for the purpose of facilitating the "economic development and social improvement" of the area Expanding industries were attracted to these areas by providing industrial premises for lease, by loans to small firms, and by

<sup>1</sup> The "development areas" established in the 1945 Act are "in the main continuous and compact regions and are suitable economic and social units for development as a whole", whereas the pre-war "special areas" were defined not in terms of regional units but more in relation to pools of actual unemployment

<sup>2</sup> Cf *Distribution of Industry*, Cmd 7450 (London, H M Stationery Office, 1948) This report is summarised in "The Distribution of Industry in Great Britain and its Relation to Manpower Problems", in *International Labour Review*, Vol. LX, No 1, July 1949, pp 67-75.

financial assistance towards rent and income tax At the outbreak of war in 1939 when many of the factories leased by the commissioners were just coming into production, some 12,000 people were employed in them

The same general approach has been continued in dealing with depressed areas under the Distribution of Industry Act of 1945 Action is vested in the Board of Trade, that is, in a single national executive body On the basis of the extent and character of their unemployment, areas may be scheduled as "development areas", and in such areas special measures may be taken to overcome unemployment and to reduce the vulnerability of the areas to unemployment. The Act authorised the Board to take over existing Government factories (munitions and other wartime factories) for conversion to peace time industry, to acquire the use of vacant non-industrial premises and to build factories in the development areas in advance of the needs of specific tenants, and to purchase land—if necessary by compulsory purchase order—for factory sites Private firms were given certain priorities in labour and materials to build their own factories in the areas, and the Board extended and developed the trading estates (now called industrial estate companies), which had become important under the pre-war commissioners for the special areas in providing accommodation and financial assistance to attract new industry The Act also provides for improving the basic services of the areas, including facilities for transport, power, lighting, housing, health and other services on which industrial development depends, and for the reclamation of derelict land in the areas for industrial use or to improve amenities

The Treasury may lend money to firms already established or proposed in the areas which have reasonable prospects of success and cannot obtain capital elsewhere, and with the consent of the Treasury, the Board of Trade may make loans to industrial estate companies to provide industrial premises in the areas A Development Areas Treasury Advisory Committee was appointed to advise the Treasury on applications for financial assistance It should be noted that the programme is applied by the Board of Trade, in the closest co-operation with the employment service machinery of the Ministry of Labour, at every stage of planning and action and at every level of operation.

In addition to providing positive inducements for attracting new industry to development areas the Board of Trade has been endowed with responsibility for obtaining a proper distribution

of industry. In the early post-war years, control was exercised on the basis of emergency legislation by considering building licence applications from the point of view of distribution of industry. In the Town and Country Planning Act, 1947, however, the control function of the Board of Trade was clearly recognised and defined. This Act provides that applications to local planning authorities for permits to erect industrial buildings containing more than 5,000 square feet must be accompanied by a Board of Trade certificate stating that the development is consistent with the proper distribution of industry.

Significant results are reported to have been achieved under this development areas programme. Private firms building their own plants have been given assistance in obtaining scarce labour and materials. The Government's building plans in 1948 included a large programme of factory construction in advance of the needs of specific tenants. By 15 September 1948 the Treasury had contracted to make loans to 19 companies amounting to £1.3 million. By 20 June 1948 a total of 159 acres of derelict land had been cleared for industrial use. Grants of over £8 million for 159 projects to improve the basic services of particular areas were promised by September 1948 by the Ministries of Health, Fuel and Power, and Transport. Nearly 3,000 houses had been sponsored by local authorities up to September 1948 in order to provide accommodation for key workers in new factories.

Special provision has been made for persons suffering from physical disability. The Government has built 10 standard factories, each of 25,000 square feet, which are to be let to firms undertaking to recruit 50 per cent. of their labour force from men suffering from pneumoconiosis or other partial disablement. The participating firms will receive a rebate of half the normal rent. In addition the Disabled Persons' Employment Corporation will eventually give direct employment to some 5,000 to 7,000 men in what are called "remployment" factories, which provide work under sheltered conditions for workers whose disability is too serious to permit them to enter normal employment.

The extent to which the over-all programme has been successful in locating post-war factory building in the development areas is indicated by an analysis of new factories and extensions of existing factories that were completed between June 1945, when the Distribution of Industry Act was passed, and the end of 1948. Although in 1945 the development areas accounted for only about 16 per cent. of the national labour force in factory trades, during

the three-and-a-half year period, 1945-1948, factory building in the development areas accounted for 60 per cent. of the total cost of factory building throughout the country and 59 per cent of the employment capacity to be created by the new capital formation. Moreover, the composition of new factory building indicates considerable progress in achieving industrial diversification. Of the insured persons in the development areas in 1945, approximately 60 per cent were in producer goods industries and 40 per cent in consumer goods industries. In the period 1945-1948, 66 per cent of the factory building was for consumer goods industries and 33 per cent for producer goods industries <sup>1</sup>

In setting an employment target for the development areas in 1945, the Government concluded that the areas needed additional employment for about 450,000 persons. By 1948, 105,000 persons had found work as a result of Government measures. In addition, it is believed that new factories completed in these areas since the war (employing about 31,800 in June 1948) will more than double their employment capacity. It is further estimated that employment for another 184,700 will be provided by the completion of the post-war building already planned and under construction <sup>2</sup>

The Belgian Government is also preparing to take measures in regions affected by chronic unemployment. It plans to encourage the creation of new industries by subsidies for scientific and technical research and by guaranteeing loans granted by public banks <sup>3</sup>. In 1949, the Canadian Government attempted to revitalise its depressed area of coal mining by extending a \$10 million loan to modernise the mines, upon which more than 100,000 persons are dependent <sup>4</sup>

In 1944 the Swedish Government created a permanent Investment Council with the objective of voluntary co-ordination of private investments. The Council was expected, *inter alia*, to give attention to the geographical allocation of investments. For example, it was believed desirable in northern Sweden to promote industries working for the home market in order to counteract the marked economic fluctuations resulting from the localisation of export industries in that part of the country. One-sided develop-

<sup>1</sup> Joseph SYKES: "Post-war Factory Building in the Development Areas and the Rest of Great Britain", in *London and Cambridge Economic Service*, May 1949, pp. 553-555

<sup>2</sup> *Distribution of Industry*, op cit., pp. 19-21

<sup>3</sup> Statement of the Prime Minister, *La Libre Belgique*, 17 Aug. 1949, p. 1; cf. also *Revue du Travail*, Sept. 1949, p. 905

<sup>4</sup> *The Financial Post* (Toronto), 10 Dec. 1949, p. 1

ment of areas with industries employing only male or only female labour has also been found undesirable <sup>1</sup>

In some countries policies affecting the location of industry in relation to labour supply have been applied primarily through regional planning involving decentralisation of industry and town-and-country planning. In New Zealand and Australia, for example, decentralisation was followed in locating war plants. In the transition from war to peace, special efforts were made to attract peacetime production into the war factories to give alternative employment in the areas, and continued decentralisation has been a part of the post-war full employment policies of these countries <sup>2</sup>

Depressed areas arising from a depletion of natural resources pose a somewhat special problem for public policy. Although the immediately realisable advantages of a developed and functioning community will justify all efforts to attract new industry to the area that can operate at a competitive level of costs, there are obvious limits to the extent to which new industries should be located in such an area through subsidies of one kind or another. If the basic resources of the region do not offer other possibilities of sound economic development to replace the employment opportunities which have disappeared with the depletion of the region's resources, migration to other areas is the only way in which the population can ever expect to arrest a continuous deterioration in its standard of living. In such cases it is best to write off most of the public and private investment in the area as of no further value and look to the possibilities of expanding employment opportunities elsewhere.

A careful survey of an area's potentialities is essential, however, before concluding that emigration is the only solution to the problem <sup>3</sup>. For example, the Great Lakes Cut-Over area in the United States has lost most of its timber-producing capacity, its copper mines are depleted and it never had sufficient good agricultural land to justify a great deal of land settlement, but its development within the last decade as a recreational site for urban

<sup>1</sup> Cf. *International Labour Review*, Apr 1945, pp 491-492

<sup>2</sup> Cf., for Australia, DEPARTMENT OF POST-WAR RECONSTRUCTION (Secondary Industries Division) *Report* (Canberra, 1948), and for New Zealand, *Thirty-First Annual Report of the Department of Industries and Commerce* (Wellington, 1948), pp 19-20

<sup>3</sup> For an example of how one community has reoriented its land use pattern through a comprehensive system of rural zoning, see *Langlade County, A Survey of its Natural Resources and their Utilization* (Madison, University of Wisconsin Press, 1934), p. 62.

populations from such centres as Chicago, Detroit and Madison has opened up new opportunities for the people within the region.

### CONCLUSIONS

The problem of depressed areas arising from a concentration of unemployment appears in several different forms. In cases where it is primarily a result of a high degree of dependence on one or two major products, greater continuity of employment can be achieved through industrial diversification.

A number of Governments have attempted to influence the nature and direction of industrial development through town-and-country planning. Some, notably the United Kingdom, have gone further and adopted a positive programme for attracting new industry into depressed areas. The improvement of basic community services is often one of the first important steps to be taken in order to attract new investment into a community. The extension of financial assistance, such as loans, grants, or tax concessions, is a still more powerful inducement for the establishment of new industry in a given area. Finally, the Government itself may undertake the preparation of sites and the construction of buildings which will be suitable for lease or sale.

In depressed areas which have developed as a result of a depletion of natural resources, however, the possibilities of sound economic development are generally not sufficient to justify a policy of attracting new industry into the area. The most effective way of dealing with the problem is normally through a programme of transfer of population to areas with expanding employment opportunities.

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## CHAPTER VII

### THE SPECIAL PROBLEMS OF THE LESS DEVELOPED AREAS

#### NATURE OF THE PROBLEMS

The problems of general unemployment and of localised industrial unemployment considered in the two preceding chapters are mainly problems of the advanced industrial countries. In the less developed economies the predominant form of economic activity is agriculture, in which the level of employment is relatively stable. There are at least two reasons for this stability. First, as is well known, in agriculture adjustments to short-run fluctuations in demand are made mainly through changes in prices and income rather than by variations in production and employment. Secondly, in the majority of the less developed countries farming is largely a family enterprise run by members of the family with little hired labour. To the extent that this form of farm organisation prevails, unemployment in the sense of being out of a job can hardly arise even when output declines.

In the less developed countries the major problem of employment is quite different from that of the mass unemployment which has occurred from time to time in the industrial countries, essentially it is a problem not of instability but of underemployment. A basic characteristic of the employment situation in the less developed countries is that although most of the working population are engaged in productive pursuits, the total amount of work done, measured in man-hours, is far below what the population is potentially capable of doing. In contrast to the situation in the advanced industrial countries, the problem is one of underemployment rather than mass unemployment, it is primarily agricultural rather than industrial, the phenomenon is chronic rather than cyclical, and, moreover, the incidence of underemployment spreads widely over the bulk of the population instead of being concentrated among a relatively limited number of workers. Not only does the situation call for different remedies, but the remedies themselves are even more difficult to apply than

the remedies for cyclical industrial unemployment. The fiscal, monetary and trade policies, for example, which may be effective against the latter can do little to eliminate underemployment in agriculture. To remove such underemployment, the countries concerned will have to alter their economic structure, to revolutionise their techniques of production and, above all, to achieve a sufficiently rapid increase in capital accumulation to counteract the depressing effects of a rapidly growing population. The problem is, therefore, much more difficult of treatment. In proportion to the difficulty of its treatment is the gravity of the social consequences which underemployment entails. It spells mass poverty and misery. As in the case of cyclical industrial unemployment, the forces making for agricultural underemployment are cumulative, there is a danger that if left unchecked the situation will steadily deteriorate, with increasing population, as time goes on. But in contrast to the case of cyclical unemployment, there are no forces inherent in the process producing agricultural underemployment which may be counted upon eventually to bring about a reversal of the trend. From a social point of view, therefore, the need for action to eliminate underemployment may be regarded as even greater and more urgent than the prevention of cyclical industrial unemployment.

Analysed briefly, the phenomenon of underemployment in the less developed countries consists of two major elements. The first and the most obvious is the long period of seasonal unemployment peculiar to agricultural production in these countries. The second element is the redundancy of labour on the land—redundance in the sense that the present supply of agricultural labour exceeds the supply required to produce the existing volume of agricultural output with the existing methods of production and organisation. Both elements of underemployment have developed in an acute form in Asia and the Far East, in the Middle East, and in parts of eastern Europe and of Latin America. The nature of each element will be more fully described below.

Besides this problem of chronic underemployment, some of the less developed countries have experienced cyclical unemployment. This problem has arisen in countries which depend to a considerable extent on the export of primary products, agricultural or mineral, and particularly where estate or plantation farming predominates. It has thus been experienced by certain countries of south-east Asia and of Latin America. The measures required to prevent such cyclical unemployment will be considered later in this chapter.



*Seasonal Unemployment*

The highly seasonal character of farming operations has created a serious problem of seasonal unemployment in the less developed countries, serious because by far the largest proportion of their populations are engaged in agriculture. While the number of working days required per unit of land varies with the type of crop, the conditions of the soil, the method of cultivation, the possibility of double cropping and many other factors, it can be said that on the whole agriculture in these countries is essentially a part-time occupation—part-time in the sense that the work to be done on the farm is sufficient to occupy the cultivator fully for only part of the year. In China, according to one survey covering 2,764 farms in seven provinces, the average man-labour requirements per hectare amount to 162 10-hour days per year for cotton, 116 for rice and only 60 for wheat.<sup>1</sup> In India, in the province of Madras, rice cultivation requires about 10 weeks of work in the year for a single crop and about 16 weeks for a double crop, while dry land cultivation for millet, oil seeds, etc., provides work for only three or four weeks in the year.<sup>2</sup> For the United Provinces, a recent Government survey reveals that the maximum employment in agriculture amounts to from 258 to 280 days a year in the canal-irrigated and wheat tracts in the north-west and central regions, whereas in the unirrigated non-wheat tracts of the eastern region employment amounts to about 114 or 118 days, or roughly four months in the year.<sup>3</sup> In the latter case the eight months of idleness are distributed somewhat as follows: two months and one week from June to October, two months and three weeks from November to January, and three months from February to May.<sup>4</sup> Although similar estimates are not available, long periods of seasonal inactivity are also found in other underdeveloped areas such as eastern Europe and the Middle East.

While seasonal rise and fall in agricultural activity seems a universal phenomenon, its social and economic effects are parti-

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<sup>1</sup> John Lossing BUCK *Chinese Farm Economy* (Chicago, University of Chicago Press, 1930), p. 228.

<sup>2</sup> Cf. Asian Regional Conference, Ceylon, January 1950, Report IV *Agricultural Wages and Incomes of Primary Producers* (I.L.O., Geneva, 1949), p. 15.

<sup>3</sup> GOVERNMENT OF THE UNITED PROVINCES, DEPARTMENT OF ECONOMICS AND STATISTICS *Rural Wages in the United Provinces: A Study of the Material Collected during the Seventh Quinquennial Enquiry into Rural Wages, Conducted in December 1944* (Allahabad, 1947), pp. 115-116.

<sup>4</sup> *Ibid.*, p. 117.

cularly serious in the less developed countries. The reasons are clear. In the first place, because of the labour required for intensive methods of cultivation and because of the difficulty of postponing certain farming operations such as sowing and harvesting, the magnitude of seasonal variations in the demand for agricultural labour is considerably higher in these countries than in the economically more developed countries, where agriculture is, to a large extent, highly mechanised. Secondly, because agriculture is the predominant occupation in the underdeveloped countries, it would make a marked difference to their national output and income if the idle man-days in the year could be fully and effectively utilised for productive purposes. Thirdly, in these countries the size of farm operated by an average rural family is so small that the income it yields is often not enough to provide a minimum subsistence, the extent to which the rural family can earn supplementary incomes during the slack season therefore affects vitally its economic well-being. This is even more true in the case of landless agricultural workers. The elimination of seasonal unemployment in agriculture is, therefore, the first problem to attack in improving the employment conditions and the income levels of the population of the less developed countries.

### *Chronic Underemployment*

Seasonal unemployment is only one aspect of the employment problem confronting the less developed countries. A more difficult aspect is the chronic redundancy of agricultural labour in relation to the area of cultivated land and the existing levels of technique. It is true that this condition does not exist in all the less developed countries. For instance, in most countries of Latin America, which are underdeveloped but have a population which is not excessive in relation to land resources, there has been little redundancy of agricultural labour in the sense here defined, though the problem of low agricultural productivity due to inefficient techniques of cultivation and shortage of capital still remains to be solved. In many of the densely populated countries this phenomenon is, however, most acute. It is the result of the continuous secular growth of the agricultural population, together with the limited number of employment opportunities in productive occupations other than agriculture.

During the early stages of population growth, while its pressure on the land is still relatively low, the problem of agricultural

employment can to a large extent be solved by the continuous adaptation of methods and patterns of land utilisation in the direction of increasing labour requirements. This adaptation may take several forms. First, changes may be made from the less labour-intensive crops to those which require more labour. This type of shift has recently been noticeable, for example, in Mexico, where population pressure is beginning to be felt<sup>1</sup>. Secondly, in some cases, the successive subdivision of holdings may render the adoption of more intensive labour techniques not only more profitable but even necessary. As the family income declines, the cultivators are compelled to use more human labour to replace animal labour. Thirdly, with the growth of population the area under cultivation may be extended steadily to include less fertile land and land with more difficult access to the supply of water, and, as a rule, the less favourable the land for cultivation, the higher are the labour requirements per unit of area. An example of this is the extra labour needed for irrigation on land where rainfall is deficient. It is mainly through these various ways of raising agricultural labour requirements that up to a certain stage the increased population has been able to find productive work on the farm despite the rise in the ratio of agricultural population to cultivated land. The second and third of these developments make for higher employment, but not for higher average incomes, indeed they appear to reflect a fall in the average standard of living. Simply to raise labour requirements seems scarcely a satisfactory goal of policy in itself<sup>2</sup>.

However, as population continues to grow, sooner or later a point is reached beyond which the labour requirements in agriculture cannot be raised any further and further increases in the supply of agricultural labour can find no useful occupation on the land. Under these conditions, even with the most labour-intensive methods of cultivation, their marginal productivity becomes practically nil. The limits of labour intensification are reached the more quickly, the smaller the amounts of additional capital available for application to the land in co-operation with the additional labour. Since farming in most underdeveloped countries is largely on a family basis, the redundancy of agricultural labour finds expression not so much in the existence of mass unemploy-

<sup>1</sup> Cf. Fourth Conference of American States Members of the International Labour Organisation, Montevideo, April 1949, Report III, *Conditions of Employment of Agricultural Workers* (I.L.O., Geneva, 1949), pp 21-23.

<sup>2</sup> This problem is taken up again later in this chapter

ment as in the phenomenon of chronic underemployment affecting the whole population of the region concerned.

Estimation of the volume of excess population on the land in relation to existing labour requirements is necessarily difficult, as labour requirements, even at the same level of technique, usually vary markedly in different localities with variations in the intensity of production, the fertility of the soil, the types of farming practised and other conditioning factors. Such estimates, though difficult to make, are nevertheless essential to the planning of industrialisation. They are lacking for the majority of the less developed countries. In countries where rough estimates are available, there is strong evidence that the excess of agricultural labour had reached serious proportions in the 1930's. Over eastern Europe as a whole one estimate made in 1939 was to the effect that "one quarter to one third of the farm population is surplus and the proportion is higher in certain districts"<sup>1</sup>. The lowest estimates based on pre-war data placed the excess agricultural population of the region at between 20 and 25 per cent. "The percentage varies from country to country: it was put at 33 per cent for Yugoslavia and Bulgaria, about 25 per cent. for Poland and Greece, about 20 per cent for Rumania, something like 15 per cent for Hungary and about 10 per cent. for Czechoslovakia"<sup>2</sup>. In some of the eastern European countries, however, the heavy losses of manpower during the war and the subsequent changes in national boundaries have greatly reduced the dimensions of the problem. In Poland, for example, according to a recent account, "unemployment in agriculture is now practically non-existent and the surplus problem is approaching a solution".<sup>3</sup> In Czechoslovakia, while a sizeable surplus agricultural population still exists in the Slovak part, a serious shortage of agricultural labour was reported to have developed in the Czech part in 1949 and arrangements had to be made to recruit additional agricultural workers from Poland and Bulgaria.<sup>4</sup>

<sup>1</sup> Doreen WARRINER *Economics of Peasant Farming* (London, Oxford University Press, 1939), p. 68.

<sup>2</sup> POLITICAL AND ECONOMIC PLANNING *Economic Development in South Eastern Europe* (London, 1945), p. 38.

<sup>3</sup> W. STYS "The Problem of Mechanisation of Agriculture", in *Ekonomista* (Warsaw), No. 11, 1948, p. 42.

<sup>4</sup> Cf. *Socialna Revue* (Prague), issued by the Polish Ministry of Labour and Social Welfare, Nos. 8-9, Aug. 1949, p. 215. In the Slovak part of Czechoslovakia the value of output per head of population engaged in agriculture in 1947-1948 amounted to only 6.7 crowns, as compared with 14.6 crowns in the Czech part, the difference gives some indication of the existence of a surplus agricultural population in the Slovak part. (Figures from VÝDAVÁ STÁTNÍ URAD STATISTICKÝ *Statistický Zpravodaj*, No. 12, Dec. 1948, p. 411.)

Considerable excess agricultural population also exists in the southern part of Italy. According to one recent estimate, in southern Italy 14.1 per cent. of the working population in agriculture are unemployed (mainly in the form of "hidden" unemployment), 15.9 per cent in industry and 34.7 per cent in other economic activities, as compared with 3.2 per cent, 17 per cent and 15.8 per cent respectively in north Italy<sup>1</sup>. It should be further noted that the high volume of unemployment in north Italy is attributable partly to the influx of surplus labour from southern Italy.

In the Middle East it is estimated that "there are today in Egypt at least two million surplus agricultural workers, as a result those employed in agriculture work fewer than 160 days a year"<sup>2</sup>. Referring to the pre-war agricultural situation in Egypt, one observer remarked that by introducing better farm management "one might envisage with fair assurance the reduction of the agricultural population by at least 50 per cent without reducing the total products from the land and without much more mechanisation than at present"<sup>3</sup>.

Attempts have yet to be made to estimate the excess agricultural population in Asian countries. Nevertheless, there can be no doubt that the excess is considerable in at least parts of those countries where the density of population is exceptionally high.

It is not possible in this chapter to dwell upon the multifarious social consequences of the growing surplus agricultural population and chronic underemployment. Some of them, however, may be briefly indicated. First, despite the progressive shrinkage in the size of the farm, the steady increase in farm population has given rise to a class of landless agricultural workers seeking intermittent employment on others' farms at extremely low wages. These landless workers are the poorest class in the rural community. Secondly, there has been a concurrent tendency towards concentrating land ownership and increasing tenancy, and as a result of the shortage of land, the rents and the value of land have steadily gone up. Thirdly, in the case of a vast number of rural families, the inadequacy of the income they receive from their small holdings

<sup>1</sup> A. MOLINARI "Southern Italy", in *Quarterly Review* (Banca Nazionale del Lavoro), Jan-Mar 1949, p. 28.

<sup>2</sup> W. J. HANDLEY "The Labour Movement in Egypt", in the *Middle East Journal*, July 1949, p. 290.

<sup>3</sup> WENDELL CLELAND *The Population Problem in Egypt* (Lancaster, Pennsylvania, 1936), p. 106.

has led to chronic indebtedness at exorbitant interest rates. These are but a few of the manifestations of the grinding poverty caused by chronic agricultural underemployment.

In several of the less developed countries chronic underemployment is not confined to the agricultural population alone; it is equally noticeable among the non-agricultural population, particularly in the urban centres. Part of the surplus agricultural labour, not finding enough work on the farm, drifts into the towns in search of other employment. In the absence of sufficient new employment opportunities, however, this movement merely shifts a part of the problem of underemployment to the urban centres in the form of an excessive supply of manual labour. By depressing wages to sufficiently low levels, some of these workers may find themselves a job in the cities, but the job is not necessarily one which gives them the opportunity to do a full day's productive work. A conspicuous example of what happens is to be found in domestic service. It is not uncommon for a household of moderate means to engage half a dozen servants and let them sit around in idleness waiting to be sent for at infrequent intervals. This type of underemployment is also noticeable in most other occupations. In the factories, for instance, the number of workers employed is often far greater than is needed, at the existing level of technique, for the output they produce. Wages being so low, there is little incentive for the employer to use his labour force more efficiently.

Compared with seasonal unemployment, the problem of chronic underemployment is at once more urgent and more difficult to deal with. It is more urgent because it increases in scale with every increase in population, and more difficult because to remedy it requires far-reaching changes in economic institutions and social traditions. Chronic underemployment thus represents a challenge to the less developed countries just as the problem of cyclical unemployment is a challenge to the countries of advanced industrial development.

### *High Labour Requirements in Agriculture*

The problem of employment in the less developed countries is not limited to the elimination of seasonal unemployment and the provision of useful occupation for workers who are at present underemployed. It goes much further than these. The objective of policy is not merely full employment. It is rather the achieve-

ment of full employment in such a way as to maximise national income and output. In any underdeveloped country there will be a wide range of possible levels of national income at which full employment might be brought about. The aim of policy is therefore not merely to create enough jobs to enable everyone of working age to be occupied throughout the year, but to enable each to obtain a job of such a character as to enable him to earn the highest possible income.

Judged by this criterion, it seems clear that even if seasonal unemployment can be eliminated and chronic agricultural underemployment remedied, there will still be a need for further occupational redistribution of workers in the underdeveloped countries, since output and income per agricultural worker, though substantially increased, are still likely to be considerably less than those of workers in industry. This will be so because the present low output and income per head of the agricultural population are due only in part to underemployment and the long slack seasons: the basic cause is the high level of labour requirements involved in existing methods of cultivation. In China, for instance, the man-hours of work required per hectare have been estimated at 1,620 for cotton and 600 for winter wheat, as compared with 289 and 26 respectively in the United States<sup>1</sup>. This technological fact—the extreme labour-intensive methods of cultivation—is itself, as was indicated above, the result of centuries of adaptation to growing population pressure on the land. But once established, these methods have become the underlying cause of low productivity of agricultural labour in these countries. The key to a satisfactory increase in their *per capita* income is, therefore, to replace existing methods of cultivation by methods involving lower labour requirements. This will of course mean a reduction in the total labour force needed in agriculture. In eastern Europe, for instance, it was estimated on the basis of pre-war data that if *per capita* agricultural output could be raised to the average European standard there would be, at the same level of production, a surplus agricultural population of approximately 45 per cent.<sup>2</sup>

Thus even when at existing levels of technique full employment is reached in agriculture, the occupational structure of employment in the underdeveloped countries will still call for adjustment: a substantial proportion of agricultural labour, over

<sup>1</sup> John Lussing BUCK, *op cit.*, p. 230.

<sup>2</sup> Wilbert E. MOORE, *Economic Demography of Eastern and South-Eastern Europe* (League of Nations, Geneva, 1945), p. 62.

and above the number now underemployed, will need to be shifted away from the land into secondary and tertiary industry

The major problems of employment in the less developed countries may be summarised as follows .

(1) to provide productive work for the farm population during long periods of seasonal unemployment,

(2) to prevent the annual increase in employable population from further aggravating the situation of chronic agricultural underemployment which in many parts of these countries has already reached serious proportions,

(3) to remove such amounts of agricultural labour from the land as are redundant in relation to existing labour-intensive methods of cultivation, and

(4) to reduce the labour requirements of agriculture so as to enable each person engaged to cultivate a larger area of land, thus making employment more productive and laying the foundation for higher standards of living

The measures required to tackle these problems are discussed below

#### ACTION AGAINST SEASONAL UNEMPLOYMENT

The types of measure that can be adopted for the elimination of seasonal unemployment in agriculture may be classified as follows (a) the development of rural industries, (b) public works, (c) the extension of mixed farming, and (d) the provision of facilities for seasonal migration. The choice of measures appropriate for any particular rural district will depend, among other things, on the resources it possesses, the raw materials it produces, the conditions of the climate and the soil, and the facilities of transport and marketing

##### *Development of Rural Industries*

In most of the less developed countries rural industries provide the rural population with an important supplementary source of income during the long slack seasons. The cottage weaving industry is a leading example. Others include the silk industry of China and Japan and the woodworking industries of central Europe. So long as these industries are profitable, the problem of seasonal unemployment, in many of the rural districts, need not arise. What has made the problem urgent is the fact that a



number of these industries upon which farm populations have depended so heavily for their livelihood and employment are experiencing a secular decline. The chief factor responsible for their decline has been the competition of cheaper factory products made at home or imported from abroad. The collapse of the Chinese rural silk reeling industry and the depression of the handloom industry in India before the war are cases in point. As a result of the decline of these industries, the farm population in regions where they used to prosper has been greatly impoverished.

In attacking the growing problem of seasonal unemployment a first line of action is, therefore, the modernising of declining rural industries so as to enable them to compete more effectively with the products of large-scale factories. Modernising involves the introduction of more efficient equipment, better techniques and organisation, more effective marketing and better financial facilities. In each of these respects the Government has a vitally important role to play. For instance, the organisation of industrial co-operatives, the provision of cheap rural credit, the large-scale production of simple but efficient tools and equipment, and the provision of technical advice—all of these are tasks which can scarcely be effectively undertaken by the villagers themselves, they all require positive action initiated by the Government.

Indeed, the scope for Government activity in the field of rural industry extends far beyond the modernisation or reorganisation of any particular industry that happens to be in a state of decline. The responsibility for over-all planning for the nation-wide development of rural industries necessarily rests with the Governments concerned. There is a need in the first place for studies of the long-term prospects for the revival of declining rural industries. If some of them appear to be beyond any hope of rehabilitation, it becomes necessary to investigate what new rural industries might be developed in the affected districts to replace those that are expected to disappear. Secondly, for rural districts where no rural industries exist, or where those that do exist have failed to yield sufficiently remunerative returns to the population, there is an equally urgent need for specific projects to develop new rural industries appropriate to the local conditions and resources. Thirdly, since in some of the rural areas the poorer families, while in much greater need for supplementary income, actually, because of their lack of capital, derive much smaller returns from rural industries than the rich, there is a need for action to correct this situation by providing technical and financial assistance to poor

rural families. Fourthly, one necessary condition for reducing the production costs of small-scale rural industries is a plentiful supply of cheap power. There is consequently a need for extensive schemes of rural electrification to be developed concurrently with rural industries.

This, however, is not all. If rural industries are to develop unchecked by the simultaneous growth of factory industries, it would seem essential to formulate national industrial policies in such a way as to provide for the association of these two groups of industries so far as possible on a complementary rather than a competitive basis. There is also scope for Government action to promote the export of the products of rural industries, as many of them are largely dependent upon foreign markets. In this connection, it is of interest to note the recent establishment of a Cottage Industries Board by the Government of India to assist, *inter alia*, in the organisation and development of small-scale industries, to examine how they can be co-ordinated with large-scale industries, and to advise on the marketing of their products in India and abroad.<sup>1</sup>

### *Public Works*

The development of rural industries is only one of the methods that may be adopted to eliminate seasonal unemployment in agriculture. Another method which also requires Government initiative and action is the dovetailing of public works with seasonal variations in the excess supply of agricultural labour. In all the less developed countries capital formation will play a central role in economic development, and much of the capital formation will be in the form of construction work requiring local labour and materials. The utilisation of idle agricultural labour for such work during slack seasons would therefore serve the dual purpose of providing employment for the agricultural population and accelerating the pace of capital formation.

In planning for such projects of construction work, special attention might be given first to those which, once started, can be readily speeded up or retarded at different seasons of the year. The construction of roads and the building of granaries, for instance, are more or less of this type. Secondly, in the selection of different projects, preference might also be given to those which raise

<sup>1</sup> *The Statesman*, 11 Aug. 1948, quoting a press note issued by the Government of India.

specifically the productivity of agriculture. Typical examples are projects of irrigation and drainage. Furthermore, the construction work needed for the erection of small-scale plants and factories in rural districts might also be done at least partly by local agricultural labour during slack seasons.

Although the skill requirements for the types of constructional activity mentioned above are relatively low, there is nonetheless still a need for training agricultural labour to do the job properly. Extensive training programmes will therefore be required in various rural districts, so that the majority of the agricultural population may acquire as rapidly as possible the necessary skills for construction work. It would also seem desirable that each rural district should have ready for operation a medium-term programme of local capital investment to ensure that the unemployed labour in slack seasons may be effectively utilised over a period of years.

#### *Encouragement of Mixed Farming*

In some of the rural areas seasonal unemployment can be partly reduced by the extension of mixed farming. There are two directions in which mixed farming can be extended. First, in areas where farm activity has so far been limited to one or two crops whose production period is relatively short, the introduction of supplementary crops can do much to raise the level of employment and income of the population. For instance, a part of the land may be devoted to the raising of root crops, vegetables and small fruits, the main work on which falls during the longer intervals between the harvesting and sowing of the main crops. Again, additional occupation may be provided and income gained by growing seeds and leguminous crops. The types of supplementary crops suited for different rural areas vary, among other things, with climatic and soil conditions. Here technical advice would be of value in helping the population to choose the right kind of supplementary crops for cultivation. The major difficulty in extending this sort of mixed farming, however, lies in the fact that most of these crops, *e.g.*, vegetables and fruits, are highly perishable. Where the transport facilities are poor, the margin of profit from such crops is likely to be small. To encourage the extension of such types of mixed farming it may therefore be desirable to introduce simultaneously small-scale canning industries in different rural districts, the development of which would also provide more seasonal employment in these districts.

Another direction in which mixed farming can be extended is by the promotion of livestock and poultry farming. The development of this type of mixed farming would not only increase the employment and income of agricultural labour in slack intervals, but would also improve the fertility of the soil by increasing the supply of manure. In densely populated rural areas, where land is especially needed for food crops, the possibilities of increasing livestock production may be limited by the shortage of grazing-land. However, even in such cases certain kinds of livestock, *e.g.*, hogs, can still be raised by intensive indoor feeding. In the less densely populated areas the scope for expanding livestock production is of course much greater. To enable the rural population to increase livestock production, Government assistance of several types is likely to prove necessary. First, because raising livestock requires substantial amounts of initial capital, it may be necessary to provide special credit facilities to the rural population for this kind of productive undertaking. Secondly, in most of the less developed countries the methods of livestock and poultry raising now in practice are still inefficient and producers frequently incur heavy capital losses owing to animal epidemics. For this reason, popularisation of scientific husbandry and the provision of technical services, such as the establishment of rural veterinary stations, are of particular importance. Thirdly, there is the fact that the problem of seasonal unemployment has been far more acute for landless agricultural labour working intermittently on estate farms than for cultivators possessing their own holdings, since the former possess no land on which to make use of their seasonally idle labour. One effective way of promoting mixed farming is therefore to redistribute the land on a more equal basis, so that everybody can work his own land during slack periods. With regard to agricultural conditions in some of the less developed areas of Europe, one writer has made the following pertinent observations: "The economic significance of peasant farming, as contrasted with estate farming, is that it carries more cattle to the acre than the large farm, that is to say, more capital. This contrast between peasant farms and large farms is observable everywhere, but is particularly striking in Germany, Hungary and Poland. In so far as it promotes more intensive production through investing in farm livestock, peasant farming tends to increase the volume of employment" <sup>1</sup>

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<sup>1</sup> Doreen WARRINER : *op. cit.*, p. 148.

*Facilities for Seasonal Migration*

In some of the rural areas where supplementary employment is difficult to obtain, it has become customary for agricultural workers to migrate to neighbouring areas for temporary employment during slack seasons and return to their land when the busy agricultural season starts. Two types of such seasonal migration may be distinguished: migration to neighbouring provinces within the national territory and migration to neighbouring countries. An example of the former, in China, is the regular seasonal movement of rural population from Shantung Province to Manchuria. Examples of the latter are the migration of Indians to Burma's rice fields, and, before the first world war, the large seasonal migrations of agricultural labour from Slovakia, Carpatho-Ukraine and Poland to the central European regions of large-scale cereal and sugar-beet production<sup>1</sup>. Migrant labour travels in family groups, as single individuals or in gangs. In the regions of eastern Europe just mentioned, the migrants were largely women.

To render seasonal migration lucrative, Government action is needed in at least four important respects. First, there is an urgent need for the improvement of local recruitment practice. Hitherto the recruitment of seasonal migratory agricultural labour in the various Asian countries referred to above has been haphazard and unorganised, and has been achieved mostly through personal contacts. This lack of expert guidance not only restricts the potential opportunities of employment and reduces the earnings of the migrants, it also entails a considerable waste of their time and energy waiting and searching for a suitable job in a strange locality. The situation can be greatly improved by the establishment of public recruitment agencies in rural districts to find adequate seasonal employment for local agricultural workers outside their own districts. Secondly, experience has shown that seasonal migratory labour is liable to be exploited by the employer because the supply price of such labour is extremely low. This calls for Government intervention in the form of regulations defining conditions of work and the method and level of remuneration to which such workers are entitled. Thirdly, seasonal migration of agricultural labour is often handicapped by the cost of

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<sup>1</sup> LEAGUE OF NATIONS, European Conference on Rural Life, 1939, Technical Documentation *Population and Agriculture, with Special Reference to Agricultural Overpopulation*, contribution by the International Institute of Agriculture (Geneva, 1939), p. 58.

moving back and forth from one region to another. To the migrant, the cost may appear to be a heavy burden, especially in relation to the shortness of the period of migration and the smallness of the income earned during such a period. For the purpose of encouraging seasonal migration, there is a good case for Government subsidisation of part of such costs. For instance, the Government may arrange special reduced rates of boat, railway and bus fares for the migrants, as well as housing facilities in the localities where they will find temporary employment.

Finally, seasonal migration beyond national territories is often rendered difficult by the severe restrictions imposed by the receiving countries. When this occurs, there is a need for joint consideration by the Governments concerned of the ways in which such restrictions might be relaxed and the migrants protected from discrimination.

The suitability of each of the four methods of preventing seasonal unemployment in agriculture discussed above—the development of rural industries, public works, mixed farming and seasonal migration—for any particular rural district varies markedly according to the local conditions. Furthermore, even in districts where all these methods are feasible in some degree, there remains the problem of planning for such a combination of them as will secure the fullest social and economic advantage. In many of the less developed countries, if plans for attacking this problem are to achieve their purpose, they will need to be devised with special emphasis on the variations in local needs. It is necessary to take painstaking steps to investigate, region by region, what the actual conditions are, and how in each particular region the situation can best be remedied. To emphasise this is only to indicate the difficulty of the task and the need for thoroughness of action to cope with it.

#### ACTION AGAINST CHRONIC UNDEREMPLOYMENT

As already indicated, chronic underemployment is a more difficult problem to tackle than seasonal unemployment, its eradication requires more drastic measures and more strenuous efforts. The problem has two distinct aspects—one is diagnosis and the other treatment. For each aspect a different approach seems necessary. In any less developed country the degree of chronic underemployment tends to vary greatly from one region or locality to another, and in some localities where economic conditions

are favourable, the phenomenon may not exist at all. As far as diagnosis is concerned, the approach must, therefore, be in terms of local conditions. Before drawing up any programme of action to remedy it, the first necessary step is to undertake systematic regional surveys of the actual situation, that is, to ascertain in each region as accurately as possible the amount of agricultural labour that must be released in order that the remainder of the working population may be *fully* employed on the land without involving any change in technique or organisation to maintain the same level of agricultural output. The aim of this preliminary survey is twofold: first, to estimate the extent of regional variations in the quantity of surplus agricultural labour within the country and, secondly, to arrive at an assessment of the total volume of surplus agricultural labour for the country as a whole. These data will provide the necessary factual basis for action.

While the diagnosis must be directed to local differences, it is far from certain that chronic underemployment in any particular region can or should be eliminated by regional treatment, *i.e.*, treatment which does not require any far-reaching adjustments in other regions of the country. Unlike seasonal unemployment, the ultimate elimination of chronic underemployment involves action on a nation-wide scale. The kinds of action required and the problems involved are considered in the following sections.

### *Land Settlement*

In formulating a balanced programme of action the question first arises as to whether, and to what extent, new employment opportunities can be found for the surplus agricultural labour in agriculture itself. The question may be considered from two aspects: the possibility of increasing employment opportunities on the land already under cultivation by applying to the land increasing amounts of capital, and the possibility of shifting part of the surplus agricultural labour to land which has not yet been cultivated.

With reference to the first aspect, it seems clear that the main result of applying increasing doses of capital to a given amount of land is to raise the output per unit of the land. Although this will also raise output per head, it does not necessarily follow that the degree of underemployment will be reduced to any considerable extent. The only important case in which an increased application of capital to a fixed amount of land will create additional employ-

ment opportunities on the land itself is where the increased application of capital enables the population to introduce additional farming activities which require additional labour. This possibility has been mentioned earlier in connection with the prevention of seasonal unemployment, an outstanding example being the extension of mixed farming, but this method, valuable as it may be, can make only a limited contribution to the relief of underemployment, particularly in countries where the volume of surplus agricultural labour in certain regions has already reached serious proportions. In addition, however, to such limited employment as it may provide on the land, the application of increased capital and the greater output in which it results may be expected to create some new jobs in various auxiliary services and related fields, such as the sale, repair and servicing of farm equipment, the transport of supplies and produce and the marketing and processing of produce. Here again, however, it would seem unlikely that the jobs so provided could absorb more than a fraction of the farm population that is at present underemployed.

From the standpoint of the provision of employment, the second aspect, that is, the extension of cultivable land, seems to offer greater promise. Given the amount of surplus population, chronic underemployment in the rural community will doubtless be more effectively relieved if the surplus population is shifted to some other land than if it remains on the same land but works with more capital. The extent to which this method can contribute to the solution of the problem is, however, limited by the amount of empty but cultivable land remaining in the country concerned. In Asia and the Far East, for instance, the amount of such land relative to the size of population varies considerably in different countries. In China, since most of its cultivable land has already been cultivated, the remaining area still available for settlement is considered inadequate as a major outlet for its surplus agricultural labour.<sup>1</sup> India seems to have a relatively larger reserve of unused cultivable land, and hence enjoys greater scope for land settlement. It may be noted that, as part of the scheme to promote food self-sufficiency, the Government of India in January 1949 decided to reclaim six million acres of cultivable land, this would undoubtedly provide additional employment for at least part of India's surplus

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<sup>1</sup> Cf. Preparatory Asian Regional Conference of the International Labour Organisation, New Delhi, 1947, Report IV *The Economic Background of Social Policy, including Problems of Industrialisation* (I.L.O., New Delhi, 1947), pp. 23 and 160.



agricultural labour<sup>1</sup> In Japan, despite the shortage of cultivable land, the need for a substantial expansion of agricultural production prompted the Government to launch a 15-year land reclamation programme in 1945 The programme is designed to reclaim a total of 1 65 million hectares and by the end of 1947 about 284,000 hectares had been reclaimed.<sup>2</sup> In other countries of the Asian region, *e g*, Burma and the Philippines, where the problem of underemployment is less acute and the unutilised cultivable land more plentiful, there appears to be more scope for land settlement as a method of relieving underemployment

As regards other less developed regions it seems that the efficacy of this method would differ greatly, for instance, as between eastern Europe and Latin America Whereas the former has nearly exhausted its supply of cultivable land, the latter, being much less densely populated, still has a great deal of cultivable land available for settlement Because of this underlying difference in economic demography, land settlement seems to be a more effective method of reducing underemployment for Latin America than for eastern Europe

In planning for a programme of land settlement, several problems need to be considered The first is that of capital requirements While it is true that in any country there are lands which are beyond any possibility of cultivation, there are, generally, large areas whose susceptibility to cultivation stands in direct proportion to the amount of capital investment For instance, marsh lands cannot be cultivated without capital investment in flood control and drainage, lands deficient in rainfall require very heavy investment in the construction of elaborate irrigation works to make them productive In some cases lands are potentially fertile but are unpopulated on account of malaria, as in parts of tropical Asia and South Africa To render such lands cultivable necessitates large-scale capital investment in the eradication of the disease Furthermore, to make land suitable for settlement, it will not suffice to make it physically productive, it has to be made economically productive as well—that is, the value of the produce must cover its cost of production This consideration applies particularly to outer regions remote from the marketing centres of the country In such cases the distance can only be

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<sup>1</sup> *The Times*, 25 July 1949.

<sup>2</sup> G H.Q., S C A P, NATURAL RESOURCES SECTION *Outlook for Japanese Agriculture*, Preliminary Study No 25 (Tokyo, 6 May 1948)

conquered by extending new communication lines which again requires capital investment.

It must be remembered not only that land reclamation requires heavy capital investment, but also that the same amount of capital investment in the reclamation of different types of land is likely to yield markedly different physical and financial returns. A first step in planning in each country will therefore be to estimate the relative expected returns from lands available for reclamation in its different regions. In so doing, it would be useful to work out a systematic schedule for each type of land relating the probable increases in returns to different levels of capital investment. On the basis of such information, decisions could be taken as to which of these lands should be reclaimed and what aggregate capital expenditure should be incurred on projects of land reclamation.

In making such decisions the planning authority concerned would have to consider also the alternative uses of capital. Wherever a limited amount of capital is available, the advantage of its being invested in land reclamation must be compared with the advantages that can be derived from other types of capital investment. Allocation of capital expenditure among different uses constitutes a central problem in planning for economic development. Land reclamation is one aspect of this problem, and it needs to be treated from two different points of view. From the point of view of relieving underemployment, the limit to aggregate capital expenditure on land reclamation should be determined at the margin beyond which any further increase in capital expenditure can be more effectively spent in other lines of economic development—more effectively, that is, in terms of the number and productiveness of the employment opportunities created. As has been indicated, this margin will be determined, in part, by the potential of the country in question in terms of the other resources with which it is endowed. For a country rich in other resources, the balance of advantage may be in favour of a policy which concentrates most of the capital expenditure on the development of such resources and little on land reclamation, even if it has plenty of fertile land available for reclamation. On the other hand, in countries poor in other resources, land reclamation may be the only effective method of eliminating underemployment of the population, in spite of the high capital cost involved in making the uncultivated land productive and ready for settlement. Therefore, when planning to reclaim land in any less developed country, it will be necessary to consider not only the different amounts

of capital investment required for uncultivated lands of different quality, but also to balance the returns from various alternative uses to which the capital can be put

As a matter of national policy, land reclamation has often in practice been motivated not so much by a desire to provide employment, as by the need to achieve greater self-sufficiency in respect of food. In some countries the need for food self-sufficiency arises from a shortage of foreign exchange to pay for food imports, while in others it may arise from the desire to promote national security. Whatever the motives may be, it seems necessary to point out that these two objectives may not coincide in all cases. In certain cases they may conflict seriously with each other. Some land reclamation projects with national food self-sufficiency as their objective may be feasible only at exceedingly heavy capital costs. From the standpoint of the provision of employment and income for the underemployed population, such projects would seem ill-advised, since the same amount of capital expenditure would probably create a greater volume of employment with higher incomes if it were invested in other lines of economic development. Where national security is believed to be at stake considerations of this kind may, it is true, have little chance to prevail—a fact which emphasises the importance of the contribution which effective international planning and action in the promotion of world economic development may make to economic security and prosperity.

To carry out programmes of land settlement, it is clearly not sufficient to undertake construction works designed to make the land productive, it is equally necessary to devise effective schemes to facilitate the transfer of excess populations from overcrowded lands to the reclaimed lands that are made ready for settlement. In devising such schemes several elements need to be taken into account. First, the settlers will need to be provided with adequate housing and farming implements. While it may not be necessary to supply these capital goods free of charge, the initial capital expenditure to be incurred by the Government on this score is likely to be large. Moreover, subsidies in the form of low interest charges on the cost of these items may prove an essential inducement to settlement, since in most cases the agriculturists of the overcrowded region will be much too poor to bear the full capital cost even if it were amortised over a long period of years. Secondly, for similar reasons, any scheme of land settlement will need to be so devised as to enable the settlers to purchase the land on

attractive terms. As a concrete example, reference may be made to the report that "in projects already under way in India and Japan, such improved land is being sold to settlers at the value of three crops to be paid back over a twenty-year period"<sup>1</sup> Thirdly, land settlement also affords an opportunity for promoting more efficient forms of farm organisation such as co-operative and collective farms, and in this respect Government initiative and assistance would be especially necessary Fourthly, in many cases the newly reclaimed land, though it is potentially rich, may be remote from the regions of surplus agricultural labour, and the transport costs of moving rural families may act as a serious deterrent to settlement. To remove this disadvantage, the Government would have to bear such transportation costs Finally, in addition to the factor of physical distance, there is also a natural social inertia on the part of the agricultural population inhibiting movement away from the land on which they were born and brought up and away from their friends and relatives, even though the land promises them nothing but poverty Government action would therefore be needed also to overcome this inertia.

### *Industrialisation*

The second method of relieving chronic underemployment is industrialisation The problems of industrialisation have been dealt with extensively in other reports of the International Labour Office<sup>2</sup> The discussion in the present chapter will therefore be limited to certain aspects which have particular relevance to the subject of employment

#### *Entrepreneurship, Capital and Industrial Skill*

The first aspect to consider is the ways and means of promoting industrialisation at a rate sufficiently rapid to absorb the existing volume of underemployed labour The rapidity of industrialisation will be governed by the speed with which it is possible to increase the supply of three basic factors of production entrepreneurship,

<sup>1</sup> UNITED NATIONS *Methods of Financing the Economic Development of Underdeveloped Countries*, Report by the Secretary-General, Appendix I, Report submitted by F.A.O. (Document E/1333, 7 June 1949), p. 6

<sup>2</sup> See in particular *The Economic Background of Social Policy, including Problems of Industrialisation*, *op cit*, Fourth Conference of American States Members of the International Labour Organisation, Montevideo, 1949, Report I. *Report of the Director-General* (Geneva, 1949), and Asian Regional Conference of the International Labour Organisation, Ceylon, 1950. *Report of the Director-General* (Geneva, 1949).

capital equipment and industrial skill. The countries concerned need therefore to consider what policies should be adopted to bring about the most rapid increase in the supply of these three factors

If surplus agricultural workers are to be shifted into industrial employment, there must be, first of all, entrepreneurs to employ them. Only when there are entrepreneurs willing and able to start new industries and to expand established ones can additional industrial employment be created for the surplus labour. The supply of entrepreneurs thus plays a decisive role in determining the rate of industrialisation. How can this supply be most rapidly increased? In considering this basic question, a distinction must be made between private entrepreneurship and public entrepreneurship. In order to bring about a rapid increase in the total supply of entrepreneurship, each of the less developed countries, in formulating its industrialisation policy, will have to judge for itself the relative potential speed with which the supply of each type of entrepreneurship can be made to increase in the future under its particular economic, social and political conditions. Each country will then have to decide which combination of private and public entrepreneurship will be most effective in maximising the rate of industrialisation. Needless to say, in making any such decision, other important factors such as relative efficiency and the character of the industry must also be taken into account. Within the scope of the combination considered desirable, specific measures will need to be devised to stimulate and promote as rapid a growth as possible of each type of entrepreneurship.

The relative role played by private and public entrepreneurship in present programmes of industrialisation differs radically in different underdeveloped countries. In the countries of eastern Europe most industries have been nationalised. The fact that their basic economic policy is one of nationalisation, centralised planning and control of industrial activity has indeed made it easier for these countries to set up production and employment targets for various industries and to ensure that the achievement of these targets is made a prior claim on the allocation of productive resources. In contrast, planning for industrialisation in the countries of Latin America is based primarily upon the principle of private entrepreneurship, and Governments have made it their business to foster and facilitate the growth of such entrepreneurship.

The case of India may be cited as an example of a middle course. In 1948 the Government of India announced the following classification of industries with respect to the scope of private and public enterprise (1) exclusive governmental monopoly of the manufacture of arms and ammunition, the production of atomic energy and the ownership and management of railways, (2) a group of six industries, including coal, iron and steel, shipbuilding and the manufacture of aircraft, in which existing private enterprises are to be allowed to continue under private ownership and are to be given all facilities for efficient working and reasonable expansion for the next 10 years, but in which the establishment of new undertakings is to be the exclusive responsibility of the State, (3) 18 basic industries of importance, including a number of engineering industries, cotton and woollen textiles, heavy chemicals and industries related to defence, which will be subject to regulation and control by the Central Government, (4) the remaining industries, which will normally be open to private enterprise, individual as well as co-operative<sup>1</sup>

The relative effectiveness of private and public entrepreneurship as a means of speeding up the rate of industrialisation in any underdeveloped country will naturally depend on the particular economic, social and political conditions of the country concerned. There are, however, certain points of a general character which may usefully be noted in this connection.

First, in any underdeveloped country which relies on private enterprise to carry through a substantial part of its programme of industrialisation it is important that the Government's policy concerning the respective spheres of private and public enterprise should be clearly and definitely laid down. It will be necessary, moreover, to convince the business community that the declared industrial policy will in fact be observed and will not be subject to drastic revision at short notice. Unless these conditions can be fulfilled, private enterprise is likely to be deterred by feelings of uncertainty from carrying out effectively the role assigned to it.

Secondly, in countries where industries are mostly nationalised and industrialisation is directed by centralised planning, it will be of the utmost importance to maintain the economic efficiency of each nationalised industry at its highest level and to co-ordinate the development of different industries. One major difference between private and public enterprise must be constantly borne

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<sup>1</sup> *Gazette of India*, Extraordinary, 6 Apr 1948, pp 533-538

in mind—namely, that under private enterprise the forces of competition, if they are allowed to operate, tend to eliminate inefficient concerns, whereas the fate of an inefficient public undertaking depends not upon automatic economic forces, but upon conscious decisions. Thus, in developing public entrepreneurship, much emphasis needs to be placed on its quality and efficiency.

Thirdly, even in countries where private enterprise is to be the prime mover of industrialisation, the Government still has at least three vitally important functions to perform—namely, to encourage the growth of private enterprise, to guide industrialisation into the most desirable direction and to supplement private enterprise with public enterprise wherever the supply of the former proves deficient.

While there is not space in this chapter to discuss in detail how each of these functions can be best performed, a word may be said about the measures needed to encourage the growth of private enterprise. Briefly, the measures that may be taken for this purpose fall broadly into the three groups.

(i) Educational measures designed to remove any aversion to business as an avocation, such measures being particularly necessary in countries where such an attitude, deep-rooted in social and cultural tradition, represents a serious obstacle to the growth of private entrepreneurship.

(ii) Measures to raise prospective profits through special financial inducements, *e.g.* increased import duties on competitive goods; lower import duties on raw materials and producer goods; preferential tax treatment to venture capital; subsidies; the provision of adequate short-term and long-term credit facilities, guarantees to foreign private investors, such as fair treatment, reasonable compensation in case of expropriation, freedom of annual transfer of interest and profit on capital, and so on.

(iii) Measures to raise prospective profits through Government action to reduce the real costs of industrial production and to raise the productivity of industry.

(a) measures to create “external economies” for newly developed industries—*e.g.*, the development of electric power and communications and the organisation of national programmes of technical training.

(b) measures to assist each individual industry to raise its productive efficiency—*e.g.*, Government assistance in technical

and marketing research and in the scientific deployment of labour.

As between measures of group (ii) and those of group (iii) it would be difficult to say *a priori* which group is likely to be the more effective as a means of stimulating the growth of private enterprise, as this must depend on the specific nature of each measure adopted. However, from the point of view of long-run economic benefits both to the workers and to the country as a whole, there seems no doubt that greater emphasis should be placed on measures to reduce the real costs of industrial production than on measures providing purely financial inducements. The latter, though less effective in increasing the total supply of private entrepreneurship, may nevertheless be employed with great effect in influencing the direction of industrialisation.

The supply of entrepreneurship has been considered above at some length, mainly because, although it is the prime mover of industrialisation, its importance has not been sufficiently stressed in most current discussions of this subject. No less important, however, is the need to increase the supply of the other two factors of production, capital and industrial skill.

In regard to the supply of capital, it is necessary to distinguish between the supply of investible funds and the supply of real resources on which such funds can be expended. The kinds of Government action needed to augment the supply of capital in these two different aspects should be considered separately. The supply of investible funds may be increased from both domestic and foreign sources. Domestically, various measures can be taken to achieve this end. First, a Government can increase the volume of national savings by maintaining monetary stability, by developing savings institutions and providing incentives to save, and by applying schemes of compulsory saving. Secondly, part of the investible funds can also be created by means of bank credit, subject to the limits imposed by the need to avoid inflation. Besides measures to increase the supply of investible funds, there is a need for measures to channel these funds into the most desirable fields of investment. The measures that can be employed for this purpose include the control of commercial banking, control of the investment policy of savings institutions and the setting up of Government financial institutions to mobilise and allocate funds for various projects of industrial development. The appropriateness of each measure for any particular underdeveloped



country will depend in large degree on the administrative machinery and personnel available and on the extent of governmental intervention which the country is disposed to introduce into its economic life

Government action is likely to be at least equally essential in securing investible funds from foreign sources. Most of the obstacles to the inflow of private capital can be removed only by appropriate Government action in the capital importing countries. In recent decades the fear of loss has reduced greatly the willingness of private investors to undertake foreign investment other than in the form of direct investment in foreign subsidiaries of domestic corporations. "This fear in part reflects political and economic insecurity, unstable currencies, nationalisation or requisition of foreign-owned assets, or other Government regulations lowering their earning power, exchange difficulties hampering the transfer of earnings or principal repayments to the creditor's country, discrimination against foreign investors, double taxation of earnings, and the fear of more such developments in the future."<sup>1</sup> These are powerful deterrents to private foreign lending, and if the Governments of the underdeveloped countries want to encourage such lending they will need to take all possible steps to remove them

In addition, the Governments of these countries can avail themselves of the facilities available for securing loans from foreign governmental agencies and from or through international lending institutions. Such loans are especially necessary for fields of development which are not attractive to private investors. To make such loans possible it is essential that the borrowing country should have ready for execution specific well-planned and economically sound projects of investment. It is significant to note in this connection a recent observation of the International Bank for Reconstruction and Development to the effect that "the principal limitation upon Bank financing in the development field has not been lack of money but lack of well prepared and well planned projects ready for immediate execution"<sup>2</sup>

The task of Governments in developing the supply of capital clearly does not end with measures to increase the supply of

<sup>1</sup> UNITED NATIONS. *Methods of Financing the Economic Development of Underdeveloped Countries* (Lake Success, June 1949), Appendix I, p. 37. See also NATIONAL ASSOCIATION OF MANUFACTURERS. *Capital Export Potentialities after 1952* (New York, Mar. 1949), pp. 54-58.

<sup>2</sup> INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT: *Fourth Annual Report, 1948-1949* (Washington, 1949), p. 9.

investible funds, they must also take action to expand the real resources needed for capital formation. To achieve this purpose two types of measure are needed: one to increase domestic resources and the other to increase the supply of resources which have to be imported from abroad. Domestically, vigorous action is needed to expand the output of basic materials such as coal, steel and constructional materials that are likely to become bottlenecks, hindering capital formation. The supply of foreign resources needed for capital formation may be increased by measures to stimulate production for export, to mobilise foreign assets and to fix schedules of priorities for different types of import according to their relative essentiality.<sup>1</sup>

One difficult problem confronting the less developed countries is to avoid inflation while accelerating the rate of capital formation. The difficulty lies in the fact that the low level of savings and taxable capacity makes it impracticable, at least in the majority of those countries, to finance large-scale programmes of capital construction entirely, or even mainly, by increased savings out of the existing national money income. The programmes, therefore, may have to be financed, in part, by such methods as credit creation which will increase the level of that income. The expansion of money income will raise the demand for consumer goods, but during the period of capital construction the supply of such goods is not likely to increase much and will probably fall if capital formation is to proceed at a rate which requires the diversion of resources from the production of such goods. This disparity between increased demand for and unchanged or reduced supply of consumer goods will, unless it is effectively offset, raise the level of prices. The rise in prices, by provoking further increases in money wages, may start off an inflationary spiral which will, in the end, seriously handicap the process of capital formation.<sup>2</sup>

The problems involved are well summarised in the following passage from a recent report by the Secretary-General of the United Nations on methods of financing economic development:

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<sup>1</sup> For a more detailed discussion of methods of accelerating capital formation, see Asian Regional Conference of the International Labour Organisation, Ceylon, 1950 *Report of the Director-General* (I.L.O., Geneva, 1949), pp. 42-59.

<sup>2</sup> For a more detailed discussion of the problem of inflation in the less developed countries, and measures to deal with it, see Third Conference of American States Members of the International Labour Organisation: *Director's Report* (Montreal, 1946), chapter II, "The Problem of Inflation in Latin America", pp. 60-74.

Inflation must be distinguished from inflationary pressure. Inflationary pressure is an inevitable result of the accelerated investment required by a development programme in so far as it is not financed from abroad. The inflationary pressure will develop into inflation only when it is not offset by fiscal measures, direct controls or import surpluses. Thus Governments of underdeveloped countries are not likely to find it possible to avoid inflationary pressure since this in many cases would mean the abandonment of development itself, the appropriate anti-inflationary policies will, however, enable them to avoid inflation and offset the inflationary pressure engendered by economic development.

It needs to be pointed out that inflation holds particular dangers for undeveloped countries. In general, their output is more rigid than that of industrialised countries and cannot be easily expanded to meet the pressure of rising money demand, the administrative and economic mechanisms required for keeping inflation in check are less developed, confidence in monetary stability and monetary institutions is less firmly established, while foreign exchange reactions are more closely watched, and the danger of capital flight greater. Inflation will encourage those speculative and inessential transactions which are major obstacles to economic development, discourage domestic savings as well as foreign investment, disrupt foreign trade relations, and lower the general efficiency of production. Hence it may be said that the development of anti-inflationary policies, whether voluntary or non-voluntary, domestic or foreign, monetary or direct, according to their own choice and institutions, assumes particular importance for underdeveloped countries.<sup>1</sup>

In addition to the shortage of entrepreneurship and capital, shortages of skilled labour and technical personnel have also been a serious factor impeding industrialisation. For any large-scale programme of industrialisation a great variety of industrial and technical skills is needed. The skill requirements differ not only from industry to industry but also for different processes within each industry. It is equally clear that if industrialisation is to proceed rapidly, the supply of managerial, administrative and technical personnel at higher levels must also be increased. Of particular importance is the complementary relationship between various types of industrial and technical skills. Shortage of skill in one industry may hinder the development of many other industries. One essential element in any programme of industrialisation is, therefore, a well-balanced scheme of technical and vocational training designed to ensure that the supply of all grades of skill will be sufficient to meet the needs of the programme. Some of the problems involved in the organisation of suitable training schemes have been considered in chapter V above, others are

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<sup>1</sup> UNITED NATIONS *Methods of Financing the Economic Development of Underdeveloped Countries*, op cit, p. 19

discussed in greater detail in a recent I.L.O. report dealing with training problems in the Far East<sup>1</sup>

To sum up, the extent to which surplus agricultural labour can be shifted into industrial employment will be determined by the supply of three basic factors of production—entrepreneurship, capital and industrial skill. The more rapidly these factors can be expanded, the greater will be the employment opportunities created to absorb the surplus agricultural labour. Some of the measures for expanding these factors have been considered. However, it must be stressed that because these are complementary factors, the essence of planning for industrialisation will be to ensure a *balanced* rapid increase in the supply of all the three factors of production. A lag in any one of the three will necessarily retard the whole process of industrialisation.

#### *Locational Aspects of Industrialisation*

For the purpose of relieving underemployment, measures to accelerate the speed of industrialisation alone are not sufficient. It is also necessary to ensure that the employment opportunities created by industrialisation will be made available to the underemployed. This consideration is of great practical importance for several reasons. First, as indicated earlier, within each of the less developed countries, surplus agricultural labour at the existing levels of technique tends to vary markedly from region to region; and in some regions where economic conditions are more favourable, chronic redundancy of agricultural labour may not exist at all. Secondly, the locations in which industries may be developed with the greatest economic advantage may not fall within the regions of surplus agricultural labour. Indeed, for a number of industries labour supply is not a major factor in determining their localisation. Thirdly, as is well known, in the less developed countries the geographical mobility of agricultural labour is exceedingly low. Furthermore, the degree of its mobility varies inversely both with the distance and with the income level of the agricultural population. The factor of distance takes on special significance in countries of vast extent, such as China and India.

<sup>1</sup> I.L.O. Studies and Reports, New Series, No. 11: *Training Problems in the Far East. Report on Technical and Vocational Training in the Far East prepared for the International Labour Organisation and the United Nations Economic Commission for Asia and the Far East*, by Marguerite THIBERT (I.L.O., Geneva, 1948). See also Asian Regional Conference, Ceylon, Jan. 1950, Report V: *Organisation of Manpower, with Special Reference to the Development of Employment Services and Training* (I.L.O., Geneva, 1949).

The income factor is particularly important in the case of under-employed agricultural labourers, who are generally too poor to meet the costs of moving

In the absence of advance planning, there is always the possibility that new industries may spring up mostly in localities in which there is little or no surplus agricultural labour, that as a result of the shift of local agricultural labour into such industries, agricultural output in those localities may fall unless labour-saving devices are introduced simultaneously to ease the resultant local shortage of agricultural labour, and that in regions where surplus agricultural labour does exist, this surplus, because of its immobility, may remain as great as ever. When such a situation arises, industrialisation, at least in its early stages, will fail as an effective means of relieving underemployment, even if it raises the national output substantially and creates new employment opportunities indirectly to a limited extent in regions of surplus agricultural labour

The question has therefore often been asked should underemployment be relieved by bringing "jobs to people" or by bringing "people to jobs"? For reasons stated above, it is obvious that neither of these measures by itself can provide a complete solution. In formulating any concrete course of action, the reasonable approach would seem to be to achieve such a combination of these two methods as will yield the greatest total economic and social advantage. The planning authority is in fact confronted with two distinct sets of questions: first, what industries can be developed near or within the regions of surplus agricultural labour and what industries should be developed elsewhere, and secondly, what measures should be taken, in regions unsuited for industrial development, to assist the surplus agricultural labour to move to regions where new industrial jobs become available? In other words, in any less developed country the industrialisation policy needs to be so designed as to bring as many industrial jobs to the regions of surplus agricultural labour as the regional economic conditions permit, and to move to more distant industrial jobs as much as possible of the surplus agricultural labour in regions where economic conditions do not permit industrial development.

To plan for the initial locational pattern of industrialisation is admittedly an extremely difficult task, requiring careful judgment of a complexity of factors, some of which are, by nature, intractable and impossible to predict. The locational advantages of any region for any industry are bound to change over time with movements of population, advances in technology and discoveries of

new resources, or new uses for existing resources. In the present chapter no attempt will be made to discuss this complicated subject. Here the policy of industrial location will be considered only in so far as it relates to the access of surplus agricultural labour to the newly created industrial jobs. From this point of view, the industries to be developed may be conveniently classified into the following groups

*Group A.* industries which are suitable for decentralisation among rural districts within regions of surplus agricultural labour;

*Group B.* industries which are unsuitable for decentralisation but can still be established within the regions of surplus agricultural labour, though not within daily travelling distance from where such labour at present resides,

*Group C.* industries which, for reasons of cost advantage, must be located far from regions of surplus agricultural labour.

The difficulty of moving "people to jobs" clearly varies among these three groups. For industries in group A the difficulty seems to be practically non-existent, whereas for those in group C the difficulty would be very great indeed. The group B industries provide an intermediate case in which some mobility of labour is required but should not be difficult to bring about with adequate Government assistance.

From the standpoint of the relief of chronic underemployment, any programme of industrialisation must take into careful consideration (a) the relative amount of development to be encouraged in each of the three groups of industries, and (b) the geographical distribution of each group of industries to be developed. A preliminary task will therefore be to survey as thoroughly as possible the geographical distribution of the country's potential resources available for industrial development. The planning authority might then proceed to appraise, in each particular region of surplus agricultural labour, the economic possibilities of industrial development. Where such possibilities do exist, it could also determine the particular types of industry to be developed and their particular locations in each of these regions. Needless to say, the objective of industrialisation is far wider than relief of underemployment. There are industries which need to be developed regardless of their degree of proximity to the regions of surplus agricultural labour. However, it is also important to keep in mind the distance between the planned location of those industries and the various labour-

surplus regions, and to consider whether it is feasible for those industries to draw their labour supply from these regions

In appraising the economic possibilities of industrial development for any specific labour-surplus region, it is well to remember that the availability of local raw materials is only one factor, and in many cases not even an important factor, in determining such possibilities. There are other factors which should also enter into any such appraisal, one being the advantage of low labour cost and another the proximity to the market. In any labour-surplus region new industries may be developed by virtue of the locational advantage of any one or all of these factors. The importance of each factor in governing locational advantage, however, varies greatly with different types of industries. One recent study has suggested the following principles in classifying industrial plants according to the relative importance of these factors

(1) *market-oriented plants*, where—

- (a) finished products are perishable or not freely transportable,
- (b) transport costs are an important part of total delivered costs and the finished product is more expensive to carry than the materials required,
- (c) service, convenience to the customer, or regional loyalty is involved in achieving the desired level of sales,

(2) *material-oriented plants*, where—

- (a) the necessary materials are perishable or not freely transportable,
- (b) transport costs are an important part of total delivered costs and the materials are more expensive to carry than the finished product,
- (c) it is important to increase the supply of materials,

(3) *labour-oriented plants*, where—

- (a) transport costs are an insignificant part of the delivered cost of the finished product and geographical differentials in labour costs exist,
- (b) wages constitute a high percentage of production costs and the necessary labour supply is available only in particular areas <sup>1</sup>

The above principles, though requiring modification when applied to particular cases, seem to be of sufficient general validity to provide useful guidance for planning authorities in considering which industries should be developed in a particular labour-surplus region or whether the region has any prospect for industrial development at all

<sup>1</sup> Glenn E. McLAUGHLIN and Stefan ROBOCK *Why Industry Moves South. A Study of Factors influencing the Recent Location of Manufacturing Plants in the South* (Kingsport, Tennessee, National Planning Association, Committee of the South, 1949), pp 25-26.

Another crucial consideration in the choice of location for any industry is its possibility of decentralisation, particularly among the rural districts. Whether an industry is susceptible to decentralisation depends, *inter alia*, upon the degree of cost advantage which it can derive from economies of large scale and also upon how close it has to be to the sources of power to keep the cost of power transmission or fuel transportation at a manageable level. For some industries the cost advantage of large-scale production is strictly limited and, furthermore, such cost disadvantage as may arise from small-scale production can be partly removed by introducing new types of equipment—simple, inexpensive, but efficient—designed specifically for small-scale operations. Regarding the advantage of proximity to the sources of power, it has been generally agreed that this advantage will diminish in importance with the progress of rural electrification. While large-scale multi-purpose power projects would require enormous sums of capital expenditure, it is also possible nevertheless to establish small-scale power installations in numerous rural districts by utilising local water resources. In these respects a Government can do much to enlarge the possibilities of decentralisation, at least for some industries.

In formulating a policy of industrial location there are, therefore, three related aspects which need to be considered simultaneously, namely, (a) the distances between the industries to be developed and the regions of surplus agricultural population, (b) the most suitable location of each industry to be developed with regard to its inherent needs, and (c) the possibilities of industrial decentralisation. After careful consideration of all the relevant facts bearing upon these aspects of the problem, the planning authorities should be able to draw up concrete plans for the initial locational pattern of industrialisation. On the basis of such plans rough estimates could be made of the proportion of the country's surplus agricultural population that could be provided with industrial jobs on the spot, the proportion that need move only a relatively short distance to find jobs, and the proportion that will have to travel long distances to the localities where new industrial employment opportunities can be provided.

For those labour-surplus regions which are not particularly suitable for industrial development under existing economic conditions, there is also a need for the planning authorities to consider whether special subsidies should be used to foster industrial development in those regions. It is conceivable that in some



cases the factors unfavourable to the growth of industry—such as lack of transport and difficult access to markets—will be only temporary in character. In such cases subsidisation may be a sound policy in the long run, considering especially the heavy social costs involved in transferring population to other regions.

Even in those labour-surplus regions which are suitable for industrial development, Government assistance and encouragement are likely to prove necessary to ensure that industries are actually developed in those rather than in any other regions. Such assistance will be necessary for several reasons. First, for some industries there may be several alternative economic locations, some within or near the labour-surplus regions and others quite far away. Since the differences in cost advantages between these various locations may be fairly small, private entrepreneurs may choose the latter regions as sites for their industrial plants. Secondly, even in cases where a labour-surplus region offers the most advantageous location for a certain industry, it is still possible that private entrepreneurs may decide on other locations as a result of errors of judgment. Thirdly, industries can be developed more rapidly in those regions with Government assistance than without it. The ways in which Governments may influence the location of new industry are discussed in detail in chapter VI.

Consideration has so far been given to the elements involved in formulating a sound policy of industrial location with special regard to the distances between the regions of surplus agricultural labour and the industries to be developed, and to the kinds of action that a Government may take to ensure that industries will be settled in labour-surplus regions wherever economic conditions permit. This, however, constitutes only half of the problem, the other half consists in devising ways and means to assist surplus agricultural population to move from regions which are ill-suited for industrial development to areas of new employment opportunities.

In order that the surplus agricultural population may move to areas of new employment opportunities, three conditions must be met: workers must know where and what the new jobs are, they must be able to pay the costs involved in the transfer, and they must be willing to leave their present home and community. In creating these conditions, Governments have an important role to play. The problems involved in and the measures needed for the promotion of geographical mobility of labour have been considered in some detail in chapter VI.

*Industrialisation and Technological Unemployment*

One aspect of industrialisation that has been neglected in most of the current discussion of the subject is its effect on the employment of workers engaged in the handicraft industries.

In many of the less developed countries the handicraft industries still occupy a prominent place, continuing to manufacture the great bulk of the goods required by the population. In China, for instance, the number of handicraft workers in 1933 was estimated at 10 million, or about 10 times the number of factory workers, and of the total manufactured net product 78 per cent. was produced by handicraft workers and only 22 per cent. by factory workers<sup>1</sup>. In India it was estimated on the basis of census figures that in 1931 there were 6,141,000 persons engaged in cottage industries as compared with 1,482,000 workers in large-scale industries and 228,000 workers in small-scale industries<sup>2</sup>. In other less developed countries handicraft industries likewise play an important role, though probably not as great as in Asian countries.

The preponderance of handicraft industries in their existing industrial structure presents the underdeveloped countries concerned with a difficult problem of technological unemployment in the course of industrialisation. The decline of handicraft industry as a consequence of the growth of modern industry has already been mentioned in the previous discussion on action against seasonal unemployment in agriculture. The problem, however, needs to be considered in a broader setting. In most of these countries the handicraft industries include not only rural industries providing supplementary income and employment to the agricultural population, but also urban industries which give full-time employment to millions of wage earners. It is also important to realise that while in the past the decline of handicraft manufacturing has been confined to a limited number of industries such as handicraft textiles, in the future, if industrialisation proceeds at a rapid tempo and involves the simultaneous development of a great variety of modern industries, its impact on the handicraft sector of the economy will be much greater and more extensive than has been experienced so far.

<sup>1</sup> Pao-san OU and Foh-sen WANG "Industrial Production and Employment in Pre-war China", in *Economic Journal*, Vol. LVI, No. 223, Sept. 1946, pp. 428-429.

<sup>2</sup> *The Economic Background of Social Policy, including Problems of Industrialisation*, op. cit., p. 57.

For purposes of illustration, let us take the industrial structure of China in 1931, which was characterised by 10 million handicraft workers as compared with one million factory workers. Were the country to launch a large-scale programme of industrial development which aimed to absorb, say, 10 million of the surplus agricultural population, several difficult questions would arise. How would this programme affect the employment of the 10 million handicraft workers? What proportion of these workers would be displaced? How could they be reabsorbed into other sectors of the economy and at what levels of remuneration? These are problems which the planning authorities would have to consider very carefully in mapping out the country's programme of industrialisation. It would scarcely be possible to regard as a success any programme of industrialisation which entailed mass unemployment of handicraft workers and failed to provide them with opportunities for reabsorption into the country's productive system at satisfactory levels of remuneration.

Given the capacity of the newly developed industries, the proportion of handicraft workers who would be consequently thrown out of jobs would depend, first, upon the extent to which the total output of the newly developed industries represented a net addition to aggregate national output rather than a displacement of the output of the handicraft industries and, secondly, upon the extent to which the handicraft industries could improve their competitive position by raising their own productive efficiency.

The extent to which the total output of the newly developed industries would become a net addition to national output would again be determined jointly by two factors. The first factor is the aggregate volume of effective demand in relation to the combined output of the newly developed industries and the handicraft industries. If the volume of effective demand generated by industrialisation were large enough to absorb the combined output of both sectors of the economy at prices remunerative to the handicraft industries, then no mass unemployment would develop in the handicraft industries.

A second determining factor is the degree of competitiveness between the newly industrialised sector and the handicraft sector. The less competitive and the more complementary the relationship between these two sectors of the economy, the smaller would be the proportion of workers displaced in the handicraft sector. Some of the newly developed industries might in fact create new products to meet the new wants of the consuming public. Such industries

would compete with the handicraft industries only to the extent that they shifted consumers' spending from handicraft products to the new products. Even where the two sectors are directly competitive with each other, two different cases still remain to be considered. It is possible that, for certain economic reasons, the programme of industrialisation may concentrate on the rapid expansion of a limited number of industries which are highly competitive with some of the handicraft industries. In such a case, unless the volume of effective demand is correspondingly increased, a considerable volume of unemployment could be expected in the handicraft industries affected. On the other hand, the programme of industrialisation might embrace a wide range of industries, for each of which the planned increase in output during the early stages would be fairly small in relation to the output of the corresponding handicraft industries. The impact of such a programme on the handicraft sector would probably be much less than in the first case, because even though all the newly developed industries were competitive with handicraft industries, the losses suffered by each individual handicraft industry would be comparatively moderate and consequently there would be less need to lay off its employees.

Assuming that the newly industrialised sector is competitive with the handicraft sector, the latter can obviously withstand the competition more effectively if it reduces its production costs and prices and improves the quality of its products by raising its own productive and organisational efficiency. In response to its reduced prices and improved quality, the total consumer demand for such products could be expected to increase, and this increased demand would exercise a stabilising influence on the level of employment in the handicraft sector.

The foregoing short analysis of the problem suggests two avenues in which Government action could be taken simultaneously to deal with technological unemployment arising from industrialisation. At the outset, as one major element in Government policy, the programme of industrialisation could be planned in such a way as to cause as little displacement of labour in the handicraft sector as is economically feasible. To achieve this objective, three groups of measures would be necessary. First, measures would have to be taken to maintain a high level of effective demand relative to the combined output of both the newly industrialised and the handicraft sector of the economy. During the early stages of industrialisation, when the level of effective demand is

bolstered by a high rate of capital formation and the output of the newly industrialised sector is only beginning to rise, there would probably not be any large-scale technological unemployment. The problem, however, would become serious later in the process, when increasing quantities of the products of the newly industrialised sector were released in the market and the rate of capital formation began to slacken off. The Government would then need to adopt appropriate fiscal, monetary and other measures to raise the level of effective demand so as to relieve the handicraft sector of part of the competitive pressure which might otherwise force it under.

Secondly, the programme of industrialisation would have to provide a definite scope for division of labour between the newly developed industries and the handicraft industries. Such a division of labour could be worked out both according to the stages of production and according to the types of products. It would be the function of the planning authorities to determine precisely what the scope of such a division of labour should be. In doing so, two criteria could be used: (a) the differences in relative efficiency between the newly developed industries and their counterparts in the handicraft sector, and (b) the differences in economic advantage between spreading a given amount of capital expenditure over a wide variety of industries and concentrating it on a limited number of well-selected industries. Once the scope is determined in the light of these criteria, the Government could then take measures to promote and encourage industries to be developed in the specified directions.

Thirdly, those handicraft industries whose preservation is desired would need every possible assistance, technical, financial and other, from the Government, in improving their productive, organisational and marketing efficiency. The importance of this group of measures has been stressed in earlier parts of this chapter. They are likely to prove as difficult as they are important. Because of the numerical preponderance of handicraft industries in these countries, any effective governmental plan to improve their efficiency will require a commensurate number of administrative personnel to carry it into effect. In contrast to the development of modern industries, which can be rapidly established (given the required supply of entrepreneurship, capital and skill), the improvement of handicraft industries is likely to be an exceedingly time-consuming process. If the improvement in their efficiency lags far behind the pace of modern industry's growth, a large number of handicraft industries will still be eliminated. The time factor

is therefore of central importance in planning any effective programme of Government assistance for the modernisation and reorganisation of the handicraft industries. In order to minimise the adverse effects of the advance of modern industry into the handicraft sector, the programme must be carried out as extensively and as rapidly as possible, and for that reason it must receive special emphasis in the over-all programme of industrialisation.

Even though all of the above three groups of measures are taken jointly to reduce the displacement of handicraft labour in the process of industrialisation, a certain amount of technological unemployment seems hardly avoidable, while, in some cases, it may be quite considerable. The problem must, therefore, be approached at the same time from another direction. Measures are needed to quicken and facilitate the reabsorption into the productive system of the displaced handicraft workers. For this purpose two groups of measures are indicated. One group consists of measures to improve the occupational and geographical mobility of these displaced workers. Problems relating to the training and retraining of workers, the organisation of employment services and other means of improving labour mobility have been examined in chapter V above. It is only necessary here to emphasise that measures to improve their mobility, though essential, will not suffice to ensure the re-employment of these workers.

Such re-employment will depend upon the creation of additional demand for labour. One way of achieving this would be to allow wages to fall. When the level of wages was sufficiently reduced, demand for labour would increase, mainly as a result of increased substitution of labour for capital. This method of re-employment by lowering the workers' standard of living, however, is not only socially undesirable but would also prove detrimental to the progress of industrialisation, because falling wages inhibit the incentive to increased mechanisation and higher industrial efficiency.

The additional demand for labour should therefore arise, not as a result of reduction in wages, but from further expansion of national output. Given the unemployed labour force, additional national output can be produced only when additional capital equipment is available, and this brings us back to the problem of methods of increasing the supply of capital considered earlier in this chapter. In the present context it is necessary to restate that in order to achieve full employment in the less developed countries, the supply of capital must be large enough to equip not only the surplus agricultural labour, but also those handicraft workers who

are displaced by the process of industrialisation. The amount of capital needed for the latter purpose depends, of course, upon the extent to which employment in the handicraft sector can be stabilised in the face of the advance of modern industries. There is, however, reason to believe that for some of these countries the amount of capital needed in this respect will be considerable.

In view of the difficulty of raising capital, it is particularly important that the distribution of total capital expenditure among different projects of economic development should be so planned that it will provide the maximum possible volume of employment, so long as this does not come into serious conflict with the objective of maximising the rate of increase in total national output and income. In other words, given the total volume of capital expenditure, the average amount of capital per worker for the planned projects should be reasonably small. In selecting specific projects, this criterion can be followed in two ways. First, some types of investment projects, for technical reasons, require far greater amounts of capital per worker than others. Though certain capital-intensive projects may be indispensable for raising the level of national output, priority should be given wherever possible to the less capital-intensive projects, as they will tend to produce a greater employment-creating effect than other investment activities. Secondly, even for the development of any particular industry, there still remains a wide range of choice in respect of capital requirements per worker. The lower the planned capital requirements for the industries to be developed, the greater will be the number of jobs created by industrialisation for the same amount of capital expenditure. It has been commonly argued that a smaller amount of capital per worker will also result in a smaller output per worker. This notion, however, holds true only in a broad sense. Strictly, there is no unique relationship between these two variables, and the relationship commonly assumed has not been verified by empirical experience. Indeed, for the same amount of capital per worker, the output per worker in different industrial plants is likely to vary considerably. Such variations are due to the techniques of production used, the degree of organisational efficiency, and other factors affecting the productivity of labour. To reconcile the objective of provision of employment with the objective of maximising output and income, measures for industrialisation should, therefore, be directed particularly toward the promotion of such methods of increasing the productivity of labour as will require little capital expenditure.

*Population Policy*

The future dimensions of surplus labour in the overpopulated underdeveloped countries will be determined only partly by the present volume of the surplus, it will depend also on the annual rate of increase in the numbers of the population. The more rapid the annual rate of increase, the more difficult it will be to achieve full employment at a high level of *per capita* income, since to achieve this an additional amount of capital equipment will be required to equip the additional labour force. As indicated earlier, the rate of capital formation in the underdeveloped countries is limited by low levels of domestic saving and the difficulty of diverting resources from consumption to capital formation. It seems, therefore, unlikely that capital formation in these countries during the early stages of economic development can proceed fast enough to equip adequately both the surplus labour already in existence and the additional labour force brought forth by rapid population growth. Under such conditions the additional labour force would again tend to become surplus labour on the land and underemployment would thus remain unrelieved.

The effect of an accelerated population growth will be particularly serious for those less developed countries whose present populations are already large in relation to their potential agricultural resources. For these countries not only will the full employment of an increased labour force require enormous amounts of additional capital equipment, but to support an increased population at reasonably high standards of living will also necessitate a marked expansion of their exports of manufactured goods to exchange for food imports from abroad. This in turn will not be possible unless the advanced industrial countries are both willing and able to make thorough readjustments in their own structures of production and external trade.

The above problem in the overpopulated, less developed countries is to be sharply distinguished from that encountered in those which are underpopulated in relation to their potential resources, such as are found for example in Latin America or Africa. In the latter countries not only is an increase in average worker productivity less dependent on the rate of increase in capital formation, but there are also factors tending to increase the rate of capital formation in underpopulated countries which are generally absent in overpopulated countries. In the first place, the family-year output in agriculture is greater, because a



man-hour of labour is more productive when combined with rich undeveloped natural resources than when combined with poorer natural resources, and because the hours of work in a family-year of labour are much greater in an underpopulated country than in an overpopulated country suffering from underemployment of the labour force. Secondly, an increase in *per capita* production may be expected merely through the processes of a greater division and specialisation of labour that are made possible by a more optimum sized labour force and a larger domestic market. Thirdly, an expansion in the size of the domestic market will not only make probable a more effective utilisation of the existing stock of capital, but it will also improve the opportunities for new investment and open up possibilities of applying mass production techniques. Finally, even relatively small increases in the supply of labour and capital in countries with rich, undeveloped natural resources will often yield large increases in output, thus not only raising average worker productivity but also increasing the possibilities of larger savings. For all these reasons an increase of population either through natural growth or immigration, up to a certain point, promises substantial economic advantages to such countries.

The crude rate of natural growth in population depends upon the balance of the crude birth rate and the crude death rate. In most of the underdeveloped countries two demographic features seem especially significant. first, that the present birth rates and death rates are both unusually high, and second, that the birth rates are substantially higher than the death rates. Where the birth rates have greatly exceeded the death rates, population has increased rapidly during the past decades.

The rates of population growth immediately before and after the second world war in a selected number of countries are shown in the accompanying table. In comparing and interpreting these figures, great caution needs to be exercised owing to the wide margins of error involved. Furthermore, for many countries the pre-war and post-war crude rates are particularly misleading, in so far as the post-war figures are biased by special demographic conditions such as the abnormally high marriage rates during and after the war. Nevertheless, it is important to note that in quite a number of the underdeveloped countries the rates of population growth were high. In many of these countries, the rapidity of population growth can be attributed to the reduction in death rates with relatively little or no decline in birth rates.

If at the present low standard of living the death rate in many

TABLE XI RATES OF POPULATION GROWTH IN SELECTED COUNTRIES  
(per 1,000 inhabitants per year)

Country	Crude birth rate		Crude death rate		Rate of natural increase	
	1939	1947	1939	1947	1939	1947
<i>In selected countries which may be regarded as underdeveloped or which have large underdeveloped areas</i>						
<i>Asia</i>						
Burma	32.4	n a	23.0	n a	9.4	n a
Ceylon	36.0	30.4	21.8	14.3	14.2	25.1
China						
Formosa	44.4	40.7 <sup>a</sup>	20.1	19.0 <sup>a</sup>	24.3	21.7 <sup>a</sup>
India	32.7	28.8 <sup>a</sup>	21.5	18.7	11.2	10.1 <sup>a</sup>
Indonesia (Java & Madoera)	29.4	n a	18.9	n a	10.5	n a
Japan	23.6	34.8	17.3	14.8	8.8	20.0
Korea	37.0	31.8 <sup>a</sup>	18.8	21.2 <sup>a</sup>	18.2	10.6 <sup>a</sup>
Federation of Malaya	42.0	43.2	19.1	19.5	22.9	23.7
Philippines	32.4 <sup>1</sup>	n a	16.6 <sup>1</sup>	n a	15.8 <sup>1</sup>	n a
Siam	36.7	24.9 <sup>a</sup>	16.9	15.9 <sup>a</sup>	19.8	9.0 <sup>a</sup>
<i>Middle East</i>						
Egypt	42.0	42.6 <sup>a</sup>	25.8	27.7 <sup>a</sup>	16.2	14.9 <sup>a</sup>
Palestine	38.0	44.4 <sup>a</sup>	13.9	12.3 <sup>a</sup>	24.1	32.1 <sup>a</sup>
Jews	23.0	30.2 <sup>a</sup>	7.6	6.7 <sup>a</sup>	15.4	23.5 <sup>a</sup>
Moslems	46.4	54.2 <sup>a</sup>	17.4	16.4 <sup>a</sup>	29.0	37.8 <sup>a</sup>
<i>Eastern and Southern Europe</i>						
Bulgaria	21.4	24.0	13.4	13.4	8.0	10.6
Greece	25.0	29.1	14.0	14.6	11.0	14.5
Hungary	19.4	18.4	13.5	12.1	5.9	6.3
Italy	23.6	21.9	13.4	11.4	10.2	10.6
Poland	24.3 <sup>1</sup>	n a	13.7 <sup>1</sup>	n a	10.6	n a
Rumania	23.3	22.4	18.6	21.1	9.7	1.4
Yugoslavia	25.9	n a	15.0	n a	10.9	n a
<i>Latin America</i>						
Argentine Republic	24.9	24.3 <sup>a</sup>	11.3	9.4 <sup>a</sup>	13.6	14.9 <sup>a</sup>
Bolivia		31.6 <sup>a</sup>		12.8 <sup>a</sup>		18.7 <sup>a</sup>
Chile	33.3	33.3	23.3	16.7	10.0	17.1
Colombia	31.6	33.0 <sup>a</sup>	17.6	15.6 <sup>a</sup>	14.0	17.4
Costa Rica	42.8	53.6	18.5	13.9	24.3	39.7
Ecuador	40.7	40.4	21.1	16.1	19.6	24.3
El Salvador	41.6	41.2	18.3	15.0	23.3	26.2
Guatemala	36.3	36.8	22.6	17.4	13.7	19.4
Mexico	44.6	45.1	23.0	16.3	21.6	28.8
Peru	26.7 <sup>a</sup>	27.4	14.2 <sup>a</sup>	11.2	12.5	16.2
Uruguay	20.1	20.7 <sup>a</sup>	9.1	8.9 <sup>a</sup>	11.0	11.8
Venezuela	35.9	39.5	18.7	13.9	17.2	25.6
<i>In selected economically advanced countries</i>						
Australia	17.6	23.6 <sup>a</sup>	9.9	10.1 <sup>a</sup>	7.7	13.5
Belgium	15.5	17.8	13.0	13.3	1.6	4.5
Canada	20.4	28.6	9.7	9.4	10.7	19.2
Denmark	17.8	22.1	10.1	9.7	7.7	12.4
France	14.6	21.0	15.3	13.0	-0.7	8.0
Germany						
British Zone	20.6	15.7	11.8	11.3	8.8	4.4
French Zone	20.5	15.3	11.9	12.9	8.6	2.4
U S Zone	22.2	18.5	13.1	11.9	9.1	6.6
Netherlands	20.6	27.8	8.6	8.1	12.0	19.7
Norway	15.0	21.6	10.2	9.3	5.7	12.3
Sweden	15.4	18.9	11.5	10.8	3.9	8.1
Switzerland	15.2	19.3	11.8	11.3	3.4	8.0
United Kingdom	15.2	20.8	12.2	12.1	3.0	8.7
U S A	17.3	25.8	10.6	10.1	6.7	15.7

<sup>1</sup> 1935, <sup>a</sup> 1943, <sup>b</sup> 1944, <sup>c</sup> 1945, <sup>d</sup> 1946, <sup>e</sup> 1940

n a = not available

Sources: Figures of crude birth rates and crude death rates are from UNITED NATIONS *Demographic Year Book, 1948* (Lake Success, 1949), pp 260 265 and pp 312 317

of these countries has already started to decline in response to quite moderate improvements in health conditions, the decline can be expected to go much further when the income and welfare of the masses rise as a result of programmes of economic and social development. The question as to how fast the population of these countries will grow turns both upon how fast the death rates decline and upon the movement of the birth rates. With the present limited knowledge on this subject, it would not be possible to predict the probable changes in the birth rates of these countries in the course of economic development. The birth rate of a country is determined by a complex of cultural and social forces deeply ingrained in the people. The nature of these forces, and the precise manner in which they directly or indirectly influence demographic tendencies, are problems which require further scientific examination. In this connection it should be mentioned that, with the aim of increasing the scientific knowledge in this field, the United Nations Population Commission has selected the inter-relationship of demographic, social and economic factors as one of their major fields of investigation.<sup>1</sup> Such an investigation should be of great value in increasing the understanding of these problems.

As far as the experience of advanced industrial countries is concerned, there seems to be a natural tendency for the birth rate to fall after industrialisation and the consequent rise in living standards have progressed beyond a certain stage. Their experience also indicates a long time-lag between the fall in the death rate and the fall in the birth rate, which accounted for the enormous growth of the population in those countries during the 19th century. Whether the population of the underdeveloped countries will follow similar trends of growth during their early stages of economic development and whether the time-lag between the fall in the death rate and the fall in the birth rate will be longer or shorter than those experienced in the advanced industrial countries are matters difficult to ascertain in advance. They will depend upon the direction and speed of change in the culture and social life of the country concerned concomitant with economic development. In those underdeveloped countries whose culture and social life are more susceptible to change, the birth rate is likely to fall more rapidly

<sup>1</sup> See UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL *Implementation of Recommendations made by the Population Commission at its First to Fourth Sessions and of Related Recommendations of the Statistical Commission*, Report of the Secretary-General, Documents General E/CN.9/44 and E/CN.3/38 (Lake Success, 14 Feb 1950), pp 1-2.

than in countries where culture and social life are less susceptible to change

While predictions regarding the future movements of birth rates are difficult to make in the present state of knowledge, it is, nevertheless, important to recognise that when death rates turn rapidly downwards as a result of economic development, the present rates of population growth in those countries will be maintained even if the birth rates fall as rapidly as the death rates. If the rates of population growth are to decrease, the birth rates will have to fall more than proportionately to the fall in the death rates. Thus it would seem that unless a radical change in social attitudes takes place within a reasonably short period of time, the populations of the underdeveloped countries may increase more rapidly during the early stages of economic development than the present rates of growth. If in countries where the present rates of population growth are already high a slower rate of growth is regarded as a condition which will greatly facilitate the achievement of full employment at high standards of living, consideration might usefully be given to the desirability and feasibility of a population policy designed to help to reduce the time-lag between the fall in death rates and the fall in birth rates.

However, any such population policy, even if it is considered desirable as well as feasible from all points of view and is supported by the whole population, is likely to take considerable time to achieve its effect. For this reason it becomes all the more necessary to speed up industrialisation and land settlement, in order to create additional employment opportunities for the additional numbers which the growth of population seems bound to bring into the labour force in the years immediately ahead.

### *Emigration*

Industrialisation and land settlement are, however, basically limited by the country's supply of cultivable land and potential industrial resources. For countries poor in such resources the difficulty of creating additional but equally productive employment opportunities will increase rapidly with increases in the number of the population, even if the rate of natural increase is reduced as the result of deliberate population policy. The question therefore arises whether and to what extent emigration can help such countries to solve their problem of underemployment.

Seen in broad historical perspective it appears clear that the

role that emigration can play in relieving population pressure for any individual country has radically changed since the 19th century. While the depressing effects of rapid population growth in Europe as a result of the Industrial Revolution were relieved in great measure by large-scale migration to the new continents, these continents by now are fairly well peopled, migratory movements on a similar scale are therefore out of the question. Moreover, in the case of some of the less developed countries the absolute size of the reduction in population that would be needed to relieve effectively their present population pressure seems to be so large that to rely upon emigration as a major means of achieving this reduction in number would be quite impracticable.

In this connection it may be useful to indicate briefly the main difference between external migration and internal migration. Within a country inter-regional movements of labour are generally unrestricted and there has always been a tendency for labour to move from surplus regions to regions with greater employment opportunities. It is true that even within a country the geographical mobility of labour is far from perfect and in the less developed countries, for reasons already mentioned, it has been very low. But this geographical immobility of labour is precisely one of the defects in the functioning of the economic system which each individual country has been endeavouring to overcome by special public measures of assistance and encouragement. In the case of external migration, the situation is directly the opposite. Not only is the social inertia to emigration vastly greater because of differences in language and in ways of life, but there is an additional barrier in the form of quantitative restrictions on immigration imposed by the receiving countries. The existence of such restrictions has made large-scale emigration from the less developed countries a virtual impossibility.

Although in present circumstances large-scale emigration is thus impracticable, there are indications that emigration on a more limited scale might play a subsidiary but useful part in helping some of the less developed countries to solve their problem of underemployment and at the same time bring beneficial effects to the receiving countries. For the sending countries there are, however, certain conditions which would need to be fulfilled if emigration is to help to solve their problem. The first condition is that their own programmes of economic development should be carried out as rapidly as possible and the second is that their own fertility rates should decrease. Given these conditions,

emigration, it has been suggested, "may provide the breathing space needed for the adjustment of fertility to the new low mortality rates".<sup>1</sup>

From the point of view of receiving countries, immigration may in certain circumstances be advantageous. In the first place, in some of the newer countries the population has apparently not yet reached an optimum level.<sup>2</sup> For such countries a reasonable volume of immigration, by expanding internal markets and promoting techniques of mass production, could help to raise the level of *per capita* income. Secondly, pre-war experience suggests that in some advanced industrial countries there may develop a tendency for the rate of population growth to decline below the optimum. Authorities on this question concur in their view that too rapid a decline in the rate of population growth is likely to produce harmful repercussions on the economy of these countries and, in particular, to enhance the difficulty of maintaining full production and employment owing to the reduced demand for producers' and consumers' capital goods.<sup>3</sup> If such a demographic trend should materialise, increased immigration might play a useful part in sustaining future levels of income and employment in these countries.

All the above considerations point to the need for international co-operation and planning in the field of migration. A brief account of what is being done in this connection by existing international organisations is given in the next chapter of this report.<sup>4</sup>

### NEED FOR FURTHER ACTION

Apart from seasonal unemployment in agriculture and chronic underemployment, the less developed countries are faced with two additional problems of employment which also call for remedial action. One is the occupational maldistribution of employment in the form of excessive concentration in agriculture owing to the

<sup>1</sup> Julius ISAAC, *Economics of Migration* (London, 1947), p. 178.

<sup>2</sup> *Ibid.*, "Factors Determining the Desirable Volume of Immigration", pp. 105-140.

<sup>3</sup> See, for example, Gunnar MYRDAL, *Population, A Problem for Democracy*, Alvin H. HANSEN, "Progress and Declining Population", Presidential Address at the 51st Annual Meeting of the American Economic Association, in the *American Economic Review*, Mar. 1939, pp. 1-15, and *Fiscal Policy and Business Cycles* (New York, 1941); J. M. KEYNES, "Some Economic Consequences of a Declining Population", in *Eugenics Review* (April, 1937), and W. B. REDDAWAY, *The Economics of a Declining Population* (London, 1939).

<sup>4</sup> See pp. 191 *et seq*.

high labour requirements of existing methods of cultivation. The other is the cyclical instability of employment in primary industries in those less developed countries which depend heavily upon the export of primary products. The kinds of action required to deal with these problems will be briefly considered in the remainder of this chapter.

### *Reduction of Labour Requirements in Agriculture*

As was indicated earlier, in many of the underdeveloped countries, even when at existing levels of technique full employment is reached in agriculture, there will still be a need to reduce the labour requirements of agriculture and to shift some agricultural labour into secondary and tertiary industry so as to enable each person engaged to cultivate a larger area of land, thus making employment more productive and laying the foundation for higher standards of living.

Reduction of labour requirements in agriculture calls for action simultaneously in two directions: first, to create sufficient employment opportunities in industry to absorb the agricultural labour to be released, and secondly, to introduce labour-saving devices into agriculture to replace the labour that is to be drawn away.

Regarding the first line of action—industrialisation—much has already been said in this chapter. Here it might be pointed out that two somewhat different types of problems are involved according to the varying conditions in different countries. In countries where there is a substantial number of people to be absorbed into industry on account of the annual natural increase of the working population, workers released from handicraft industries and workers chronically underemployed in agriculture, the amount of capital required to provide productive employment in industry will in any case be substantial. If in addition the productivity of workers remaining in agriculture is to be increased by reducing the labour requirements of agriculture, still more capital will be required both in order to make agricultural production more efficient, and to provide employment in industry for the extra workers released from agriculture. On the other hand, in countries where there are relatively few people to be absorbed into industry on account of natural increase, reduction of handicraft production and of chronic agricultural underemployment, the progress of industrialisation will be seriously hampered unless existing agricultural production can rapidly be made more efficient.

by the introduction of substantial amounts of capital equipment, so that agricultural workers may be released to man the new industries that are being developed

Regarding the second line of action, the introduction of labour-saving methods into agriculture, there are several points which seem to deserve special attention. First, in many of the under-developed countries, even where economic conditions are favourable, the introduction of such methods is made difficult by the present strip system of farming. A necessary prerequisite is, therefore, to consolidate fragmentary holdings and to promote more efficient forms of agricultural enterprise, such as co-operative farms.

Secondly, it is important to recognise the wide variety of labour-saving methods from which choices can be made to suit the needs of any particular farming region or locality. For instance, while certain agricultural areas may offer scope for the introduction of multi-furrow ploughs, tractors and combine harvesters, in others mechanisation may be most needed, not in the field of arable cultivation, but in easing the operations usually done inside the farmhouse and farm buildings. Numerous small machines for such purposes have been developed in recent years. They include "the chaff cutter, the root slicer, potato sorter, wood saw, hay elevator, smallest threshing machine, water pump, liquid manure pump, fruit or oilseeds press, milk cooler, milk separator, perhaps even milking machine for the large-scale peasant"<sup>1</sup>. It may also be noted that in many of the less developed countries labour requirements are particularly high for certain farming operations during the peak season of agricultural activity, and it is for these operations that labour-saving devices seem most needed. The introduction of such devices should enable the total farm labour force and consequently the magnitude of seasonal unemployment in agriculture in these countries to be greatly reduced.

Thirdly, to promote the introduction of labour-saving methods into agriculture, Government initiative and action will be needed in at least three different ways. (a) legislative action will be necessary for the consolidation of fragmentary holdings, and Government encouragement and active assistance will be needed for the establishment of co-operative farms, (b) it will be the

<sup>1</sup> P. Lamartine YATES and D. WARRINER, *Food and Farming in Postwar Europe* (London, Oxford University Press, 1943), p. 75. These authors suggest, for example, that "the future for farm machinery in overcrowded Europe may be in these comparatively inexpensive implements which an increasing number of cultivators will be able to afford".



responsibility of Governments to help the peasant to determine which kinds of labour-saving methods will meet his particular local needs, to popularise the use of these methods by such means as experimental stations and model farms, and to lighten, as far as possible, the burden of capital cost involved in introducing new methods, (c) there seems to be a need also for governmental action to ensure the production on an adequate scale of the right kinds of agricultural labour-saving machinery and implements and their sale at reasonable prices

Finally, there will be a need for close co-ordination between industrialisation and the introduction of labour-saving methods in agriculture. It is clearly important not only that the timing of these two types of action should be synchronised, but also that they should correspond in scale. If the total labour force on the land is reduced and labour-saving methods are not adopted, agricultural output per head may rise to some extent but total agricultural output is likely to decline. If, on the other hand, the amount of labour released from agriculture, as a result of the introduction of labour-saving methods, is greater than can be absorbed by industry, then the result will be a rise in underemployment with no economic advantage to the community. Only when these two types of action are well balanced and closely co-ordinated can the occupational redistribution of employment succeed in narrowing the differences in *per capita* income and output between agriculture and industry

### *Prevention of Cyclical Unemployment in Primary Industries*

In a number of the less developed countries the primary industries have also experienced serious cyclical unemployment. These are the countries whose primary production—agricultural, pastoral or mineral—is mainly for world markets. Among the leading examples are Ceylon, Indo-China, the Philippines, Indonesia and Malaya in south-east Asia, and Brazil, Argentina, Uruguay, Bolivia and Venezuela in Latin America. In all these countries the demand for labour in the primary industries is determined largely by the world demand for their products, and hitherto that demand has been subject to violent cyclical fluctuations. With the fluctuations in demand there have been wide fluctuations in the world prices of these products. "During the last twenty years", it was noted in 1943, "the price of wheat and of jute has been halved three times within about 12 months, the price of

cotton three times in periods of under 18 months. The price of copper and of lead was halved four times within periods of two years and doubled three times even more rapidly. The price of zinc was halved twice in 18 months, of tin twice in 24 months, zinc and lead doubled in price three times in two years or less, copper three times in 18 months. On one occasion the price of coffee was halved in eight months, on another the price of sugar trebled in four months. Between 1920 and 1933, the price of crude rubber fluctuated between four cents a pound and 25 times that amount, and was on several occasions doubled or halved in a space of a few months" <sup>1</sup>

The instability of world demand for and prices of primary products has caused instability of employment in the industries producing them. This has occurred not only in mining but also in plantation or estate agriculture. The magnitude of fluctuations in the employment of plantation workers during the inter-war period may be illustrated by the ebb and flow of migration of Indian workers to and from the countries of south-east Asia in which plantation labour was drawn, to a considerable extent, from India. For example, in Ceylon during 1928 when the world demand for rubber and tea was at its cyclical peak, the net immigration of estate workers from India was 36,624 persons and during the depression year of 1933 there was, in contrast, a net emigration of 56,071 Indian estate workers <sup>2</sup>. Similarly, in Malaya, while the annual total immigration of workers from south India averaged 110,354 persons over the period 1925-1929, it fell sharply to 6,535 in 1932 and increased to 104,977 persons in 1937 when the price of rubber was again rising <sup>3</sup>.

The contraction in world demand for primary products caused unemployment not only in primary industries but also in industries processing such products for export. In Indonesia, for instance, from 1931 to 1935 the number of workers engaged in the sugar industry in Java, exclusive of those on contract work, decreased sharply from 119,447 to 25,584 <sup>4</sup>. Furthermore, as a result of the decline in income and employment of workers engaged in the

<sup>1</sup> LEAGUE OF NATIONS *Report of the Delegation on Economic Depressions, Part I. The Transition from War to Peace Economy* (Geneva, 1943), pp. 23-24.

<sup>2</sup> *Annual Report of the Representative and the Agent of the Government of India in Ceylon for the Year 1944*.

<sup>3</sup> *Annual Report of the Agent of the Government of India in Malaya for the Year 1940*.

<sup>4</sup> INDONESIA CENTRAL BUREAU OF STATISTICS, DEPARTMENT OF ECONOMIC AFFAIRS. *Statistical Pocket Book of Indonesia, 1941* (Batavia, 1947), p. 64.

production and processing of primary commodities, industries producing for the needs of these workers also suffered depression.

The world demand for primary products has remained high throughout most of the period since the end of the second world war. However, in the case of some of these products, it began to decline in 1949. The price of rubber, for instance, fell from nearly 23 cents a pound in New York in the middle of 1948 to under 17 cents a pound in the middle of 1949.<sup>1</sup> In appraising the probable economic and social consequences of this downward trend upon the region of south-east Asia, the Executive Secretary of the United Nations Economic Commission for Asia and the Far East has pointed out that "both in the immediate future and for some time to come there will be a grave threat to the prosperity of south-east Asia, especially where (as in Malaya, Ceylon and Indonesia) there is a large investment in estate production, and not only the loss of fixed capital but also unemployment of a great number of labourers is to be feared".<sup>2</sup> This observation applies also to other primary producing countries of the world where surpluses of primary products have been developing.

The prevention of cyclical unemployment in primary industries calls for remedial action in two directions: first, to reduce the degree of the country's dependence upon the export of a few primary products, and secondly, to minimise both the frequency and amplitude of fluctuations in the prices of such products and to expedite the correction of the underlying disequilibrium between the production and the consumption of such products.

The remedial action needed in the first direction is to bring about a greater diversification of productive activity, thus making the internal economy less sensitive to the changes in the conditions of world demand. This has indeed been a major objective of economic policy of many of the primary producing countries. A more diversified economy can be achieved by diversifying the utilisation of land resources and by developing new industries. In both cases, the extent to which diversification can be undertaken is, however, determined partly by the quantity and quality of the country's available natural resources. For instance, in a country rich in certain mineral deposits but deficient in many other resources, the scope for diversification would be very limited. On

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<sup>1</sup> Cf. UNITED NATIONS ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST *Economic Development in Asia and the Far East: The Present Outlook*, note by the Executive Secretary (Lake Success, 30 Aug. 1949), p. 42.

<sup>2</sup> *Ibid.*, p. 54.

the other hand, countries with a plentiful supply of a variety of undeveloped resources could proceed a long way towards diversification of national production without any substantial sacrifice in long-term economic advantage. In the case of industrial production a further factor limiting the extent of diversification is the size of the market. Countries with large potential domestic markets are better suited for diversified industrial production than countries with small domestic markets. These are some of the factors which need to be taken into account in formulating any long-term policy of diversification of national production for the promotion of internal economic stability.<sup>1</sup>

As regards the second direction of action—the reduction of fluctuations in the prices of primary products and the correction of disequilibria between supply and demand—it seems clear that the action required has to be of an international character. Since the prices of primary commodities such as those mentioned above are determined by world conditions of demand and supply, attempts at price stabilisation could scarcely be fully successful without active participation of all the principal producing and consuming countries concerned, similar concerted international action would be necessary to expedite the correction of underlying disequilibrium between world production and world consumption of these products. It is not intended in this chapter to discuss any specific international measures taken or contemplated towards these ends. Such measures are examined at some length in the next chapter. Here it may suffice to emphasise the important role which might be played by international commodity agreements in the prevention of cyclical unemployment in primary industries.<sup>2</sup>

To alleviate the impact of declining world demand upon domestic primary producers, Governments in the past have frequently taken measures to stimulate exports or to maintain the receipts of their primary producers. One method often used is the payment of export subsidies, another is the Government guarantee of minimum prices. In some countries Government purchase schemes have been introduced to help to stabilise the

<sup>1</sup> Cf also the discussion in the preceding chapter of the special problem of promoting diversification in particular depressed areas.

<sup>2</sup> See chapter VIII below, and UNITED NATIONS CONFERENCE ON TRADE AND EMPLOYMENT *Final Act and Related Documents* (Havana Charter for An International Trade Organisation (Havana, Mar. 1948), "Inter-Governmental Commodity Agreements", pp. 39-43; see also UNITED NATIONS INTERIM CO-ORDINATING COMMITTEE FOR INTERNATIONAL COMMODITY AGREEMENTS *Review of International Commodity Problems, 1948* (Lake Success, Nov. 1948).

prices of certain leading primary products. It is not possible here to consider the advantages and disadvantages of these and other devices <sup>1</sup>. On the whole, however, it may be said that such isolated national measures can only be regarded as palliatives, and in certain cases they can be effectively carried out only at heavy cost to other sections of the community.

Finally, it is important to stress that stability of employment in the primary industries of the less developed countries depends chiefly upon the internal economic stability of the advanced industrial countries, for it is the demand of the latter countries which exercises the dominant influence upon the prices of primary products. For this reason the workers of the primary producing industries in the less developed countries will benefit no less than workers in the advanced industrial countries by the measures for the achievement of full employment in the latter countries which are considered elsewhere in the present report.

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<sup>1</sup> For a detailed discussion of these measures, see LEAGUE OF NATIONS *Report of the Delegation on Economic Depressions, Part II Economic Stability in the Postwar World* (Geneva, 1945), pp. 250-264.

## CHAPTER VIII

### INTERNATIONAL ACTION AGAINST UNEMPLOYMENT

The task faced by a country which is seeking to maintain full employment will be greatly simplified if its receipts from exports or from foreign loans remain free from sharp fluctuations. If these receipts drop suddenly, for instance, the country concerned will have to take equally sudden compensatory action to increase other types of expenditure so as to restore a position of full employment. Sudden fluctuations of this kind, characteristic of international trade and finance in the past, present some of the most serious difficulties in full employment policy. Moreover, to the extent that the country affected does succeed in maintaining full employment, its demand for imports will not fall to match the drop in exports, so that it will encounter difficulties in maintaining balance in its international payments. Few countries have international reserves adequate to stand any prolonged drain of this sort. Countries which get into these difficulties have in the past often allowed unemployment to develop, so that incomes and therefore the demand for imports have dropped, thus restoring equilibrium in their balance of payments at a lower level of trade. Today, few countries would accept this burden of unemployment in order to maintain their international solvency. They prefer to take action directly, for example, by introducing tariffs, quotas and exchange adjustments, in an attempt to reduce imports to whatever level can be financed out of their available supplies of foreign currency.

The next section of this chapter describes measures proposed by various nations to protect their balances of payments from fluctuations in demand for their exports.

### NATIONAL MEASURES TO PROTECT BALANCE OF PAYMENTS

Since most countries, with the exception of the United States and the U S S R., are highly dependent on their export markets for continued prosperity, measures to protect the domestic economy

against deflationary forces in the world economy are crucial. This fact prompted the New Zealand Government to lay down the working principle that "provision for . . . import and exchange controls must . . . be regarded as counterparts to the policies of full employment and economic stability"<sup>1</sup>

Practically all Governments replying to the United Nations questionnaire on measures to maintain full employment state that they would be obliged to invoke import restrictions in order to protect themselves against a deterioration in their foreign exchange position. The Swiss and the Danish replies indicate that in addition it might be necessary to resort to bilateral arrangements to rehabilitate the flow of international trade.

The Belgian and Danish Governments are careful to point out that their policies will depend in large part upon the source of their export difficulties. If they are unable to maintain their markets because their prices are too high, then the solution must be sought through technical progress, increased labour efficiency or other means of cost reduction. If, however, the export difficulties are attributable to restrictions imposed by other countries, then they might appeal to the International Trade Organisation, when it is established, to take appropriate action to remove such restrictions.

The implications of import restrictions used to offset a decline in exports require some elaboration. If the restriction of imports leads to increased output in the domestic industries which are in competition with the imported goods, then restrictions will, in the absence of retaliatory action, solve not only the balance of payments problem but also the problem of maintaining full employment in the face of the reduced volume of exports. There may, however, be some loss of real income as a result of the shift in production, despite the maintenance of full employment. In this connection it should be noted that Governments answering the United Nations questionnaire envisage selective import controls with a view to confining the restrictions to less essential goods.

Should a country find it necessary to reduce imports of essential food and raw materials, the situation might become acute. While full employment might still be maintained, *e.g.*, by public works which do not require imported raw materials, the standard of living might fall substantially. If, in addition, however, import

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<sup>1</sup> United Nations Document E/1111 (Lake Success, 31 Jan. 1949), p. 91. Unless otherwise noted, all references to national measures mentioned in this section are to be found in this document.

restrictions by one country led to a chain of retaliatory measures by other countries, as would tend to be the case, then no equilibrium in the balances of payments would be possible in the short run and deflationary pressures on the domestic economy would steadily increase. World trade would continue to shrink until counteracting forces were set in operation or, in the absence of counteracting forces, until the remaining international trade was forced largely into bilateral channels on a quasi-barter basis.

The degree to which trade with countries whose currencies were not scarce would be affected would depend upon the nature of the import restrictions, and of other measures that might be associated with them. Import restrictions may be selective with respect to commodities in such a way as to concentrate their effect upon the country which initially reduced its imports. Canada, for instance, reports that it applied this method in dealing with balance of payments difficulties which arose in a different context in 1947. It imposed import restrictions on a selective commodity basis in such a way as to reduce imports from the United States. Denmark states that in the last resort it "might find it necessary to reduce imports from the countries of whose currencies it was short"<sup>1</sup>, and the Netherlands refers in this connection to the scarce currency clause of the International Monetary Fund.

In the case of planned economies, the foreign trade sector is also a potential source of instability. Non-fulfilment of the planned programme of imports of raw materials and exports of finished goods may result in unemployment in the affected branches of the economy. The non-fulfilment of the export programme might also result in balance of payments difficulties, although the Government of Czechoslovakia points out that this danger is reduced if a large part of foreign trade is conducted with other planned economies. For such difficulties in foreign trade as do occur, however, the Czechoslovak Government states that "remedy would be sought in a suitable amendment of the plan. What means would be used to this end would depend on the particular case, planned economy possesses the widest possibilities in this connection."<sup>2</sup>

Most Governments confronted with balance of payments difficulties since the war have resorted to a reduction of imports from countries with an export surplus, that is, principally from those countries which constitute the so-called dollar area. The

<sup>1</sup> United Nations Document E/1111, p. 61

<sup>2</sup> *Ibid.*, pp. 50-51



necessity to curtail imports has been greatly eased in the short run, however, by unilateral financial loans and grants such as those made under the European Recovery Programme, and by loans and grants of international agencies, such as U.N.R.R.A., the International Monetary Fund and the International Bank for Reconstruction and Development. But in the final analysis, neither import restrictions nor special loans or grants afford a permanent solution to the problem, since restrictive measures are an invitation to retaliatory action by other Governments, and there are limits to the availability of unilateral and international financial assistance. A permanently satisfactory solution of such difficulties can be found only in expanding exports to the dollar area and in further increases in the volume of world trade as a whole. Such an expansion, as suggested by the Belgian and Danish replies to the United Nations questionnaire, must be sought through technical progress, increased labour efficiency and other means of reducing production costs in order that goods may be offered at prices and in qualities in line with the world competitive market.

Following the lead of the United Kingdom, practically all deficit countries have through currency devaluation taken the first important step in bringing their cost-price structures back into approximate parity with the dollar area. But other important measures must be taken to protect this gain and to bring about the great expansion in exports that is needed to balance foreign accounts.<sup>1</sup> Home demand needs to be limited by anti-inflationary monetary and fiscal measures, and perhaps by outright consumption controls, such as rationing and allocations, so as to provide more goods for the export market. Industrial reorganisation and rationalisation must be speeded up in order to reduce costs. Resources must be concentrated more in the production of those products for which there is a highly elastic demand in the dollar area. Finally, increased attention needs to be given to the styling, packaging, servicing and financing of goods destined for the foreign market.

#### MEASURES TAKEN OR CONTEMPLATED THROUGH INTERNATIONAL AGENCIES

Although Governments are ready to take vigorous action to protect their economies from adverse international repercussions,

<sup>1</sup> Cf. INTERNATIONAL MONETARY FUND. *Annual Report* (Washington, D.C., 1949), chapter I.

they frankly recognise the inadequacies of purely national measures. In the first place, such measures generally provoke retaliatory treatment by other countries, the net result of which may be a steadily shrinking volume of world trade. Secondly, even if measures to increase national self-sufficiency are successful in maintaining full employment at home, the cost of this achievement may be a considerable reduction in the real income of the community through a diversion of the nation's economic resources into less efficient occupations.

The recognition of the inadequacy of individual national action for achieving maximum economic development and stability in international economic relationships has brought about an increasing degree of economic collaboration among nations. Thus one of the most important objectives set for the United Nations and several of the specialised agencies is to facilitate concerted national and international action for the maintenance of full employment and to ensure so far as possible that no country takes any action which could have adverse effects upon the economies of other countries.

The first aim of international collaboration is to prevent sudden drops occurring in the purchases of imports by at least the major trading nations. The most effective way of ensuring this would be for those nations to maintain full employment in their economies or to refrain from protecting their home markets by unreasonably high tariffs. This should ensure reasonable stability in their overseas expenditure.

International collaboration may, however, also seek to establish machinery which, in the event of a decline of world trade originating in one of the major trading nations, could be effective in preventing that decline from setting off a cumulative contraction of trade, affecting all countries' balances of payments and making it more difficult for them to maintain full employment. This would require arrangements to ensure that the currencies of the major countries could be made available to the world on a stable basis, regardless of whether those countries were in fact purchasing their usual requirements of imports or not. For instance, it might be possible to arrange for increased international investment, both short-term or long-term, to compensate for declines in imports by the major trading nations.

If it could be assumed both that the major trading nations were aiming at full employment and were likely to succeed in achieving that aim, and that if they failed their currencies would

not in any case suddenly become scarce, then all countries would not only have their own task of maintaining full employment greatly simplified, but they could also afford to engage freely in international trade without fearing that they might be exposing themselves unduly to the risk of "importing unemployment".

Measures designed to achieve these aims are the special concern of the report by the experts appointed by the Secretary-General of the United Nations. Their proposals have been widely publicised and have been the subject of extensive debate in the Economic and Employment Commission and in the Economic and Social Council. All Members of the International Labour Organisation will be closely affected by the outcome of the discussions in the United Nations.

In the meantime, it is useful to examine the measures already undertaken or contemplated by international organisations in order to stabilise the level of world trade and employment. The United Nations and a number of specialised agencies have among their major purposes the promotion of full employment. Over-all responsibility for formulating and co-ordinating measures for the maintenance of full employment resides in the United Nations, while specific action programmes are undertaken by the specialised agencies in their respective fields of interest.

Article 55 (a) of the United Nations Charter provides that the United Nations shall promote "higher standards of living, full employment, and conditions of economic and social progress and development". Responsibility for the discharge of this function is vested in the General Assembly, and, under the authority of the General Assembly, in the Economic and Social Council. In 1946 the Economic and Social Council delegated the problems of full employment and economic development to its Economic and Employment Commission.

At its ninth session in the summer of 1949, the Economic and Social Council, after noting that "sales difficulties" had developed in several fields and that unemployment was rising, called for several reports to be made. First, the Secretary-General was asked to report, in co-operation with the specialised agencies, on arrangements that would be conducive to international co-operation in utilising excess productive capacity for development projects. Secondly, he was asked to appoint a small group of experts to prepare a report on national and international measures required to achieve full employment. Thirdly, he was requested to publish on a current basis up-to-date reports on measures taken

in various countries for the purpose of achieving full employment. Fourthly, he was requested to submit to the General Assembly a report on the latest available information concerning the world economic situation and national and international action to maintain full employment and economic stability <sup>1</sup>

During the fourth session of the General Assembly in the autumn of 1949 there was an extended debate on measures to achieve full employment. On 25 November 1949 the Assembly approved the Australian resolution which, after recognising the obligations of Member nations under Articles 55 and 56 of the Charter, noted with satisfaction that various Governments were prepared to deal promptly with unemployment and that policies already put into effect or under consideration included such measures as "the extension of unemployment insurance, the expansion of social services generally, public works programmes, including low-cost housing and natural resources development projects, measures affecting the level and methods of taxation, and incentives for the encouragement of private capital investment" <sup>2</sup>

In January 1950 the report of the Committee of Experts <sup>3</sup> was discussed at great length by the Economic and Employment Commission <sup>4</sup> and referred to Member Governments for consideration and further discussion at the 11th session of the Economic and Social Council. In the spring of 1950, the Secretary-General was also preparing to send a semi-annual questionnaire to Member Governments regarding current measures that were being adopted or contemplated.

In addition to the broad and active concern which the United Nations has in the development of programmes to maintain full employment, the specialised agencies are prepared individually and jointly to undertake certain specific measures against unemployment. These measures may be classified under five headings: technical assistance, migration, international commodity agreements, loans and grants, and the promotion of trade.

### *Technical Assistance*

There are many types of technical assistance which the United Nations and the specialised agencies are prepared to give Member

<sup>1</sup> United Nations Document E/1545, 17 Aug. 1949

<sup>2</sup> United Nations Document A/C 2/L 14/Rev.4

<sup>3</sup> *National and International Measures for Full Employment* (Lake Success, 1949)

<sup>4</sup> United Nations Documents E/CN.1/SR 93 and E/CN.1/SR 103

nations The bulk of the assistance is designed to accelerate economic development in the less developed economies and is thus directed primarily at the elimination of underemployment and the expansion of employment opportunities<sup>1</sup> Nevertheless, some types of assistance are aimed at preventing or reducing unemployment

One type of assistance that may be of direct help in dealing with unemployment is to be found in the International Labour Organisation's manpower programme in the fields of employment service organisation, vocational guidance, and vocational training and retraining. The codes of principles which have been developed by the International Labour Conference in these fields have been discussed in chapter V In addition to the standards-setting function which the International Labour Conference has performed in the realm of national policy, the I L O is now embarking on a world-wide programme to assist nations in acquiring the techniques that are required to apply agreed standards and to meet other operating problems in the manpower field

There are three major techniques which the I L O has developed for assisting Member nations In the first place, the Organisation has assembled groups of experts, generally on a regional basis, to study and to apply principles that have been agreed on at the international level In the field of employment service organisation the I L O's first meeting was held at London in December 1948, when experts from 16 European countries examined questions of immediate concern In the realm of vocational training and retraining, a meeting of European experts was held at Geneva in March 1945 to examine practical means of organising the training of supervisors and improving the methods of such training used in European countries A technical conference of Asiatic experts was held at Singapore in the autumn of 1949

A second means of technical assistance is that of advisory missions. An I L O expert assisted the Chinese Government in developing and improving its employment service between March 1948 and February 1949 Advisory missions were sent to Turkey and Italy in 1949 In the field of vocational training and retraining, the I L O has established an Asian Field Office on Technical Training to serve Asian countries in an informational, advisory

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<sup>1</sup> A summary of assistance rendered by the United Nations and the specialised agencies for the promotion of economic development of under-developed countries up to the beginning of 1949 is contained in the United Nations Document E/CN 1/Sub 3/24 and Addendum 1 See also Documents E/1345 and E/1327/Add 2.

and operational capacity, and it is expected that a similar office will be established in Latin America. It is also proposed to undertake field missions on vocational guidance at the request of Governments

Thirdly, the I.L.O. is assisting Governments and employers' and workers' organisations in making arrangements for the movement of trainees from one country to another. The shortage of skill, together with the absence or inadequacy of suitable training facilities in many countries, especially those that are economically underdeveloped, has made it highly desirable for persons from these countries to acquire technical training in the more industrially advanced countries

The International Monetary Fund is in continuous consultation with its members in regard to currency, banking and related problems. It regards its role as specialised adviser in monetary and financial matters as no less important than its role in making foreign exchange available to cover short-period gaps in members' balance of payments. In addition to regular consultation with members, the Fund has, on invitation, despatched missions to numerous countries for the purpose of studying economic problems in close association with national monetary authorities

Similarly, upon the request of its members, the International Bank for Reconstruction and Development has sent experts from its own staff, or has suggested qualified outside experts, to help to frame economic development programmes and to analyse the prospects of specific development projects. Frequently the Bank discovers that a member country's capacity to secure capital to finance its development is impaired by an outstanding defaulted debt or an inadequate fiscal or exchange control policy. If requested to do so, the Bank will suggest measures to render such a country more credit-worthy. All of these practices serve as complements to Bank lending. In addition, they may serve to render the country more attractive to private investors and thus encourage an increased flow of private foreign investment. The Bank has provided technical assistance of this kind to a large number of underdeveloped countries in Latin America and to a few countries in Europe, the Middle East and Asia

The Food and Agriculture Organisation is prepared to offer a wide range of assistance in improving agricultural productivity. It has sent technical missions to Greece, Poland and Thailand, and participated in the United Nations mission to Haiti as well as in the mission of the International Bank to Lebanon. Arrangements

have been made by F A O for various forms of international training for experts and for international conferences and meetings. The F.A.O. has also taken important action in relation to agricultural equipment and supplies, including the distribution of various kinds of seeds.

On 4 March 1949, the Economic and Social Council adopted Resolution 180 (VIII) requesting the Secretary-General, in consultation with the executive heads of the interested specialised agencies and taking into consideration the suggestions of Member Governments, to prepare a comprehensive plan for an expanded, co-operative programme of technical assistance for economic development through the United Nations and its specialised agencies, including methods of planning, executing and financing the programme. After considering the proposed plan<sup>1</sup>, the Council at its ninth session adopted a resolution for an expanded programme of technical assistance for economic development which was approved by the fourth session of the General Assembly in November 1949. In the resolution, the Council set forth certain general principles as guides to the United Nations and the specialised agencies participating in the programme, it provided for the establishment of a special fund for financing the programme, it laid down a formula for allocating the fund among participating organisations, and it decided to call a Technical Assistance Conference for the purpose of negotiating contributions to the programme.

### *Migration*

For countries which are suffering from an excess of population in relation to available employment opportunities, international migration offers one means of reducing unemployment. This is the case, for example, in countries such as Italy and some of the countries in the Far East, where there is a chronic shortage of industrial capacity, together with a high rate of population increase.

Migratory movements will not necessarily be composed of unemployed persons, in fact migration, to be successful, must consist of people with the occupational and industrial training that is required in the country of immigration. In some countries the primary need may be for unskilled labour, while in other countries there may be large requirements for skilled and professional workers.

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<sup>1</sup> UNITED NATIONS *Technical Assistance for Economic Development* (Lake Success, 1949)

The problem of migration is a long-standing interest of the International Labour Organisation. The adoption of a Convention and a Recommendation on migration at the 32nd Session of the International Labour Conference (1949) represents the most recent of a long series of efforts to develop an international code of principles which will safeguard the rights and interests of the migrants as well as those of the national workers within the immigrating country. To the Recommendation is attached a Model Agreement, which is intended to encourage bilateral agreements for the migration of temporary and permanent workers. International standards have also been formulated by the Permanent Migration Committee of the I.L.O. to assist in migration for land settlement, which in the past has played a particularly important role in the economic and social development of a number of countries. A draft text of a model agreement on migration for land settlement is now being circulated to Governments for their observations and will be acted upon at the next meeting of the Permanent Migration Committee.

One of the most important obstacles to international mobility of labour has been the lack of detailed information on the surpluses and shortages of labour in different countries. The principles and procedures for organising the employment market within countries, discussed in chapter V, apply equally well to the organisation of the international employment market and have been of major concern to the I.L.O. The I.L.O. assembles and furnishes periodically to Member Governments information on the types and quantities of labour required by countries of immigration as well as information on the skills and numbers of workers available for migration in countries with a surplus labour supply. In addition, the I.L.O. is prepared to send technical missions to countries interested in immigration in order to advise them concerning the branches of economic activity which may be expanded, the regions which may possibly be opened to land settlement, and the types and quantities of labour which will be needed for the economic expansion to be undertaken.

The greatest need in countries of immigration is for skilled labour and technicians, but unfortunately the workers available for migration in countries with excess labour supply do not generally possess the qualifications and training required. In order to overcome this obstacle the I.L.O. has sponsored a programme of vocational training for both adults and youth, taking into account the particular needs of migration. By co-ordinating the training



efforts in the different countries, by improving the methods of instruction and by developing professional and technical schools, the recruitment and placement of immigrants will be greatly facilitated

Although many countries have vast immigration needs, their immediate capacity to absorb large numbers of foreign workers is greatly limited because of the lack of capital. Any large-scale immigration, whether for land settlement or industrial expansion, must be accompanied by a considerable investment of capital. For example, in the case of land settlement, large outlays may be required for such activities as clearing, drainage, irrigation, road construction, housing and the construction of marketing facilities. In the case of industrial expansion, considerable investment in plant and equipment, community facilities and housing will be required to integrate a large number of workers into the economy. A substantial part of the cost of capital outlay can, and in many cases will of necessity, be met from domestic savings. Often, however, the supply of domestic savings is so small that it is insufficient to finance the rate of capital expansion necessary even in the absence of large-scale immigration. Thus the attraction of more foreign capital becomes of great importance. Such cases emphasise the need for making at least a part of international capital movements available for developing employment opportunities for immigrant workers. Moreover, a much smaller, though nevertheless important, amount of capital is necessary to finance the movement of workers from their native country. Thus, it is contemplated that around \$32 million will be used to finance Italian migration in the year 1949-1950<sup>1</sup>

In an effort to increase international labour mobility, the I L O has, in collaboration with the United Nations and the other specialised agencies, taken the initiative in promoting international migration agreements. A conference of representatives both of Governments having special interests in migration and of international organisations has been convened for April 1950 to discuss ways and means of facilitating the transfer of people from overpopulated regions to those regions where there is a shortage of labour to cope with the industrial development contemplated.

In addition to surplus labour found in some countries, there has been another somewhat similar post-war problem of displaced persons. The International Refugee Organisation has been

<sup>1</sup> BANCO DI ROMA *Review of Economic Conditions in Italy*, July 1949, p. 323

established by the United Nations with the responsibility of taking care of and resettling war refugees. The great majority of these refugees were transferred back to their home countries in the early post-war years, but there is a residual group for which migration appears to be the only permanent solution. In the period July 1947 to August 1949 more than 590,000 refugees were resettled in Europe and in overseas countries by the I R O, with the help in certain cases of private organisations<sup>1</sup>. It is expected that by 30 June 1950 a total of 900,000 refugees and displaced persons will have been successfully resettled.<sup>2</sup>

### *Commodity Agreements*

Among the most vulnerable parts of the world economy are the areas producing primary commodities, that is, farm, forest, fishery and mines products in their natural form. In past depressions the prices of these commodities have, in comparison with the prices of other commodities, declined first, most severely and for the longest time. Not only has this involved a severe reduction of living standards for exporting groups but, as a result of reduced spending, unemployment has spread through the whole community.

In the field of domestic policy, most Governments in major agricultural producing countries have developed agricultural price-support programmes in an effort to stabilise farm income at a reasonable level. Most domestic price-support programmes, however, are limited by the fact that prices of agricultural products are determined by world-wide demand and supply factors. Consequently there has been an increasing interest, particularly among producing countries, in working out inter-governmental commodity agreements which will attempt to stabilise world production and consumption at fair prices.

The International Trade Organisation Charter lays down specific procedures for the development of inter-governmental commodity agreements. Any member is entitled to ask that a study of a primary commodity be made if in its judgment the international trade in that commodity is affected by special difficulties. After appropriate investigation has been made by a study group, the I T O is to call an international conference

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<sup>1</sup> INTERNATIONAL REFUGEE ORGANISATION *Advance Statistical Report* (Geneva, Aug. 1949).

<sup>2</sup> Cf. General Council of the International Refugee Organisation, Fourth Session, Document G C /132.

to discuss the report and recommendations of the study group with a view to taking measures to meet the special difficulties arising in that commodity. The conference may then proceed to draft an agreement setting forth principles and procedures for stabilising consumption and production of the commodity.

When the Interim Co-ordinating Committee for International Commodity Agreements was established in March 1947, it seemed likely that the setting up of the International Trade Organisation would follow at not too long an interval. With the development of excess supplies of some primary commodities in the first half of 1949, however, there was considerable concern that inter-governmental consultation and action on commodity agreements were not proceeding with sufficient speed. It was therefore proposed by the United Kingdom Government that chapter VI of the I T O Charter be put into effect immediately through a protocol arrangement, notwithstanding the fact that the Charter itself had not yet been ratified by the requisite number of Governments.<sup>1</sup>

After thorough consideration of the proposal the Executive Committee of the Interim Commission for the International Trade Organisation declined to recommend such action, on the grounds that a provisional arrangement in connection with chapter VI was not sufficiently urgent to justify the difficulties it would present. Its view was that the Interim Co-ordinating Committee for International Commodity Arrangements possessed sufficient machinery for facilitating action on international commodity agreements and that the principal trading countries of the world were by virtue of their adherence to the General Agreement on Tariffs and Trade<sup>2</sup> (article XXIX) under obligation to observe to the fullest extent of their executive authority the general principles of chapter VI of the Havana Charter.<sup>3</sup>

The only major commodity agreement that has thus far been reached in line with the principles of the Havana Charter is the Fourth International Wheat Agreement drawn up in March 1949 by 42 importing and exporting nations. The Agreement provides for the stabilisation of production, consumption and prices of wheat for a four-year period. According to the Agreement, which came into effect on 1 July 1949, importing countries

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<sup>1</sup> Document ICITO/I/W.1. See also the letter of the Chairman of the Interim Co-ordinating Committee for International Commodity Arrangements to the Secretary-General of the United Nations on commodity arrangements, ICITO/1/15, 30 June 1949.

<sup>2</sup> See below, p. 199.

<sup>3</sup> Document ICITO/1/22, 12 Aug. 1949.

guarantee to purchase minimum quantities and exporting countries guarantee to sell minimum quantities of wheat within the price range set by the minimum and maximum prices established for each of the four years of the Agreement. If an importing country finds difficulty in purchasing its unfilled guaranteed quantity or if an exporting country finds difficulty in selling its unfilled guaranteed quantity during any crop year, the International Wheat Council created by the Agreement will undertake upon request to see that the guarantee is fulfilled. In addition, each exporting country undertakes to maintain stocks of old crop wheat at the end of its crop year at a level adequate to ensure that it will be able to fulfil its guaranteed sales in each subsequent crop year. Special arrangements are provided in case a country is confronted with a short crop or the necessity to safeguard either its balance of payments or its monetary reserves.

### *Loans and Grants*

International loans and grants have played a key role in national development in the last 200 years. They have continued their important role in the processes and planning of post-war reconstruction and development. Provided foreign capital is available, international capital movements are necessarily dependent on the needs of capital-importing countries, and it may not be possible to make them anti-cyclical in effect. Nevertheless, loans and grants may act as a stabilising force in several ways.

In the first place, the mere stabilisation of the flow of international capital from excess-savings countries to countries where capital is scarce would make a great contribution to the maintenance of economic stability. One of the outstanding characteristics of the world depression beginning in 1929 was the sharp and sudden shrinkage in the volume of foreign investment. If such a shrinkage can be avoided in the future it will go a long way in preventing the development of world-wide deflation.

Secondly, short-term loans or grants may often be of great assistance to Governments in easing balance of payments difficulties. In the absence of sufficient reserves to cope with temporary emergencies, many Governments have, in the past, been forced to take restrictive and autarkic measures to protect their balances of payments. The extension of short-term credits to a Government confronted with such a situation may assist greatly

in stabilising foreign exchange rates and maintaining a free flow of trade

Thirdly, capital movements might be used to help to counteract deflationary tendencies in capital-exporting countries. If an excess-savings country is confronted with deflationary pressures at home, increased loans and grants to other countries, to the extent that they are spent directly or indirectly in the lending country, offer a means of expanding markets. Again if a capital-importing country is suffering from rising unemployment, increased loans or grants to that country will provide the Government with the means of supplementing a domestic compensatory public works programme and thereby make an important contribution to the maintenance of full employment.

One of the foremost purposes of the International Bank for Reconstruction and Development is to regularise the flow of international capital. The Bank has an authorised capital of \$10,000 million, of which more than \$8,300 million have been subscribed by Member States. Although only 20 per cent of the subscribed capital is on call by the Bank for its lending operations, the remaining 80 per cent may be used to meet obligations arising from the Bank's own borrowings or from its guarantees. The Bank's own resources will therefore permit it to make a substantial contribution in maintaining a smooth flow of capital to areas where it is most needed. Up to 20 August 1949 the Bank granted loans of varying amounts to Belgium, Brazil, Chile, Colombia, Denmark, Finland, France, India, Luxembourg, Mexico, and the Netherlands, totalling \$716.6 million.<sup>1</sup>

It is also part of the Bank's policy to stimulate investment from other sources. By examining a specific application for a loan the Bank is prepared to pass judgment on the soundness of a particular enterprise and to recommend such an undertaking to the private capital market. The Bank envisages also the possibility of stimulating private investment by making loans to cover part of the capital cost of meritorious projects. Bank participation in such investments would reduce the amount of capital that would have to be raised privately and at the same time the Bank's demonstration of confidence in the soundness of the investments should increase their attractiveness to private investors.

Moreover, through the use of its guarantee powers, the Bank can itself assume the risks of loans made from private funds.

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<sup>1</sup> INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
*Fourth Annual Report, 1948-1949* (Washington, D.C., 1949), p. 16

In addition, the Bank is examining the possibility of granting limited guarantees, such as a guarantee of transfer of interest to reduce the special risks involved in international financing without eliminating the private character of the investment. Finally, the Bank may help to stimulate the flow of private capital by encouraging the development of principles and practices fair to capital-exporting and capital-importing countries alike.

The Bank points out in its reply to the United Nations questionnaire, however, that as far as its own resources are concerned, they are "plainly too limited for it (the Bank) to be considered a leading influence quantitatively in the anti-cyclical timing of international and domestic investment" <sup>1</sup>

The International Monetary Fund is a second international organisation which may contribute to the maintenance of international economic stability through its power to sell currencies to its members in order to tide them over balance of payments difficulties. The Fund's resources on 17 September 1948 included gold to the amount of \$1,403 million, and \$5,442 million in the currencies of its members or in securities payable at face value in these currencies. Of this amount, \$1,440 million was in United States dollars. Additional sums will ultimately be payable by members whose par values have not yet been established, bringing the total resources of the Fund close to \$8,000 million.

The Fund emphasises the fact that among the considerations borne in mind, in evaluating a particular request for currencies, the desirability of avoiding a decline in employment and economic activity ranks high. Up to the end of April 1949 the Fund had sold currencies to 17 of its members to the aggregate value of about \$732 million. The great majority of transactions were in US dollars, but the Fund also sold sterling and Belgian francs. <sup>2</sup>

The third type of anti-cyclical action in the realm of international loans and grants was proposed in a draft resolution submitted by the Chinese delegate to the Economic and Employment Commission in 1947. The proposal was that the Subcommission on Employment and Economic Stability might study the kind of industries which are, according to past experience, affected most during depression, and estimate their excess capacity, the kind of development programmes that could be performed periodically or inter-

<sup>1</sup> United Nations Document E/1111, p. 174.

<sup>2</sup> INTERNATIONAL MONETARY FUND: *Annual Report* (Washington, D C, 1949), pp 43-44.

mittently, and how the excess capacity of the capital goods industries during depression in the more highly developed countries could be utilised to provide equipment for these periodical development programmes in the less developed countries. The programme to be developed from such a study would be in addition to, rather than a substitute for, the regular long-term development programme<sup>1</sup>. The proposal was referred for consideration to the Subcommission on Employment and Economic Stability, and was revived in August 1949 by the Economic and Social Council, which called for a report by the Secretary-General on possible arrangements for an anti-cyclical investment programme that would promote economic development.<sup>2</sup>

### *Promotion of Trade*

Although the International Trade Organisation, which has not yet come into being, was viewed by the architects of post-war international economic organisation as the means for bringing about a general removal of trade barriers and expanding the flow of international commerce, the actual instrument for promoting trade in the last two years has been the General Agreement on Tariffs and Trade negotiated at Geneva in 1947.<sup>3</sup>

The technique of multilateral tariff bargaining as developed under the General Agreement represents a noteworthy step in international economic collaboration, since it is a technique whereby Governments, in determining the concessions they are prepared to offer, are able to take into account the indirect benefits they may expect to gain as a result of simultaneous negotiations between other countries. In this way world tariff barriers may be scaled down substantially within a remarkably short time.

Negotiations under the General Agreement began when pairs of countries were prepared to exchange offers in response to the requests they had received from each other. During this bilateral stage all delegations were kept informed of the requests and offers exchanged, and at the conclusion of the Geneva Conference the full list of concessions offered by each country was subject to

<sup>1</sup> Document E/CN.1/20, 22 Jan. 1947. This proposal has been endorsed by the I.L.O. Iron and Steel and Metal Trades Committees; cf. Iron and Steel Committee *Record of the Second Session* (Geneva, 1948), pp. 119-120, and Metal Trades Committee *Record of the Second Session* (Geneva, 1949), pp. 135-136.

<sup>2</sup> Document E/1545, 17 Aug. 1949.

<sup>3</sup> Cf. INTERIM COMMISSION FOR THE INTERNATIONAL TRADE ORGANISATION *The Attack on Trade Barriers* (Geneva, 1949).

review in the light of the results of the other negotiations. As a result 123 agreements were completed in seven months.

The second series of tariff negotiations at Annecy in 1949 proceeded along the same lines, 11 more Governments accepted the invitation to join the Agreement, and as a result of discussions 150 new tariff agreements were worked out. Although the General Agreement does not yet include all countries, a third series of negotiations will begin on 28 September 1950, five further Governments have already indicated their intention of participating.<sup>1</sup>

Discussions have also taken place within the framework of the Economic Commission for Europe on problems relating to the expansion of international trade between the countries of Europe and between European and non-European countries. The Executive Secretary of the Commission has prepared a preliminary study of the potentialities for the expansion of European trade, and several of the committees of the Economic Commission for Europe have initiated action designed to achieve these purposes. The establishment of commodity committees within the E.C.E. has proved to be an especially effective means for the formulation and implementation of economic policy, since Committee members are representatives of their Governments and at the same time hold important positions within their industry. Thus, decisions and recommendations formulated by commodity committees are often immediately and directly translated into action, since the experts sitting on the Committee are themselves the individuals responsible for taking action in their respective countries.

Action to facilitate trade has likewise been initiated by the Economic Commission for Asia and the Far East. At the fourth session of the Commission, in December 1948, resolutions were adopted on the promotion of trade and the financing of imports of capital goods and materials for economic development. The Commission also requested a study on the desirability of establishing a regional multilateral clearing system. In April 1949, the Committee of the Whole of the Commission adopted a resolution for the establishment of a Committee on Industry and Trade.

The second session of the Economic Commission for Latin America, in June 1949, requested the Executive Secretary to make special studies of the composition and direction of the foreign trade of the Latin American countries and to explore the possibilities of expanding foreign trade. When these studies reach a

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<sup>1</sup> United Nations release *GATT* No 2, 29 Nov 1949



sufficiently advanced stage, an informal meeting of experts is to be called to formulate recommendations to the Commission on the foreign trade problems of the Latin American region

### *The I.L.O. and Full Employment*

The welfare of labour is intimately bound up with the maintenance of full employment. It is therefore fitting that "the prevention of unemployment" constitutes one of the major objectives of the International Labour Organisation as laid down in its Constitution in 1919, and that the International Labour Conference has recognised in the Declaration of Philadelphia (1944)—

the solemn obligation of the International Labour Organisation to further among the nations of the world programmes which will achieve full employment and the raising of standards of living

The I.L.O. has been concerned with full employment policy for over 30 years. In the first place, it has played a leading role in the formulation of national and international policies for the prevention and mitigation of unemployment. Secondly, the I.L.O. has, so far as lies within its power, undertaken an operational programme, particularly in the field of manpower, looking towards implementation of internationally agreed policies.

The work of the I.L.O. in relation to the many problems connected with the maintenance of full employment has been described in the appropriate sections of this report. A comprehensive summary of its work in this field since its inception is available in the chapter on full employment in the *Fourth Report of the International Labour Organisation to the United Nations*

## CHAPTER IX

### CONCLUSION : A POLICY FOR FULL EMPLOYMENT

#### WORLD EMPLOYMENT SITUATION

As far as statistics show, in most industrial countries unemployment has remained at low levels since the end of the war. The majority of them had fewer unemployed persons in 1949 than in the period 1937-1939. In many countries the main problem in the employment field during the past few years has been in fact one of labour shortage rather than of idle workers. A far greater proportion of available manpower has been employed than was the case before the war, despite the fact that there has been a steady increase in population of working age.

There are, however, several countries in which, according to available statistics, unemployment in 1949 appears to have remained substantial or to have increased appreciably compared with the earlier post-war years. The most important of these cases are the United States, the Bizone area of Germany, Italy and Belgium.

In all these countries the unsatisfactory employment situation can be attributed to a variety of economic and social factors, but the dominant cause seems to differ in each case. In the United States the rise in unemployment in 1949 was due mainly to the liquidation of inventories held by manufacturers and wholesale dealers. However, as a result of the high level of spending by consumers, Governments and private investors, this minor inventory recession was localised in certain specific industries and did not lead to a cumulative decline in employment. In the Bizone area of Germany, a major factor responsible for the upward trend of unemployment in 1949 was the rapid increase in the labour force consequent upon the large-scale influx of refugees. To provide productive jobs for those idle workers, measures would be necessary to restore, expand and utilise fully the country's industrial capacity. The unemployment problem in Italy is, to a large extent, of a chronic character, originating primarily in the lack of employment opportunities in southern Italy. The latter area has been over-

populated in relation to its existing resources. The constant migration of unemployed and underemployed workers from that area into other parts of the country in search of productive jobs has made unemployment in Italy a national problem. The main solution to this problem lies in the acceleration of capital formation so that the idle workers can have the necessary physical equipment with which to work and to produce. Thus the unemployment problems in the Bizone area of Germany and in Italy are broadly similar in nature, although the cause of the present labour surplus appears to be chiefly immigration in one case and a retarded rate of economic development in the other. The increase in unemployment in Belgium in 1949 can be ascribed, to a large extent, to the increasing sales difficulties experienced in the export industries. Such difficulties have affected employment in at least two ways. First, as a consequence of reduced foreign demand, production in some of the Belgian export industries has been reduced and a substantial number of workers have been thereby discharged. Secondly, in the face of intensified competition in foreign markets, some other export industries have adopted schemes of rationalisation to reduce costs of production. By so doing, their exports and production have been maintained, but the labour requirements of those industries have been reduced. This explains why in certain Belgian industries unemployment in 1949 was rising in spite of high levels of production.

While, with the exceptions noted above, the great majority of the industrial countries in 1949 experienced low unemployment and utilised manpower more fully than before the war, the employment problem in the underdeveloped countries remains as serious a problem as it was before the war. Although no adequate unemployment statistics are available, it has to be recognised that in many of these countries, particularly where the population has grown to a point where it presses heavily on the available land resources, a substantial part of the working population are chronically underemployed on the land even under the existing labour-intensive methods of cultivation. In some cases the productivity of the underemployed becomes so low that they can be shifted away from the land without affecting total agricultural production. In addition to chronic underemployment, the agricultural population in most of the underdeveloped countries also suffers long periods of seasonal unemployment during which work must be found to sustain their minimum living requirements. Underemployment and unemployment of this nature are difficult to measure

statistically, but attention must be drawn to the seriousness of these phenomena in the world employment situation today

Apart from the special employment problems of the under-developed countries, it still remains to be seen whether, even in those industrial countries which at present maintain high levels of employment, employment in the years immediately ahead will remain as satisfactory as at present. In this connection two underlying factors may be noted which have so far helped to sustain high levels of employment in those countries. One is the high volume of expenditure incurred during the past few years by consumers, private producers and Governments for the replacement of durable goods—plant and equipment, transport facilities, power installations, public and residential buildings, automobiles, etc.—worn out or destroyed during the war. Expenditure in this category is likely to fall as replacement needs are progressively satisfied. Thus the maintenance of total expenditure, which is an essential condition for the maintenance of the present high levels of employment, would require a corresponding expansion of other types of expenditure to offset the decline in expenditure for replacement purposes. For this reason high levels of employment in these countries are not likely to be as easy to achieve in the future as they have been so far since the end of the war.

For certain industrial countries which depend heavily upon imports for the supply of fuel and raw materials, foreign financial aid is another underlying factor which has contributed significantly to the maintenance of high levels of industrial activity and employment since the end of the war. Such financial aid has so far enabled those countries to import raw materials in sufficiently large quantities to keep their industrial capacity in full and continuous operation. For these countries the future prospects of industrial employment would, therefore, seem to depend in part upon their ability to expand exports to pay for such volumes of imported materials as are essential for high levels of industrial production. If exports fail to expand to the extent required, production and employment in industries dependent upon imported materials are likely to fall. In the long run, it is true, workers thus discharged may be reabsorbed in other sectors of the economy. Such a redistribution of labour force, even if it were to restore a high level of employment, would, however, result in a reduction in real income per head in the countries concerned.

To recapitulate, the current world employment situation since the war may be characterised by four salient features. First,

in the majority of industrial countries unemployment during the past few years has been low by comparison with pre-war experience. Secondly, in several industrial countries unemployment registered an appreciable increase during 1949, the dominant cause of which, however, seems to differ in each case. Thirdly, in many of the underdeveloped countries there exist at present serious phenomena of chronic underemployment and long periods of seasonal unemployment in agriculture which will tend to become worse if no effective action is taken to counteract them. Finally, even for those industrial countries which have so far experienced high employment, there are certain underlying economic factors which suggest that high employment in the years ahead may be more difficult to achieve than in the past few years.

The main features in the world employment situation point to the need for a concrete programme of action to combat unemployment in all its forms, so that the common man the world over need not live in continual fear of losing his job or remain perpetually underemployed and poor through no fault of his own.

### TYPES OF UNEMPLOYMENT

Any programme of action against unemployment will need to be based on a clear recognition of the fact that there are different types of unemployment, each of which calls for different remedial action. As suggested in this report, three major types may be distinguished according to their causes: (i) unemployment arising from deficiency in aggregate demand, (ii) unemployment arising from shortage of capital equipment or other complementary resources, and (iii) frictional unemployment, arising from lack of correspondence between the demand for labour in particular jobs and the number of workers who are qualified and available for these jobs.

While the first type of unemployment, which is often of a cyclical character, has been a main concern of the advanced industrial countries, the second type exists primarily in the underdeveloped countries and takes principally the form of chronic underemployment in agriculture. The third is likely to occur in any progressive economy even when the former two types are eliminated. All these three types of unemployment are found in the recent world employment situation. Although for the world as a whole unemployment arising from deficiency in aggregate demand, unlike the situation in the 1930's, presents no serious

problems at present, there is nevertheless a need for taking precautionary action to prevent it from developing when the post-war replacement and reconstruction expenditures in most industrial countries threaten to decline substantially

Before considering any specific lines of action to deal with each type of unemployment, it seems necessary first to point out certain general conditions which need to be fulfilled as far as possible if a country is to meet the challenge of unemployment. One general condition is the need for adequate unemployment insurance to enable the involuntarily unemployed workers to maintain their income at a level that is in accord at least with socially acceptable minimum standards of living. While many advanced industrial countries have already adopted unemployment insurance schemes, in quite a number of countries such schemes still remain to be established. Even in those countries having schemes, the present legislation could be improved in various aspects. First, the scope of coverage is often so limited that major categories of workers such as agricultural employees and some classes of salaried employees lack the protection afforded to their fellow workers in other industries. Secondly, in some cases the period of eligibility required to establish qualification for benefits appears to be unduly long. Thirdly, waiting period requirements may be unnecessarily restrictive. Fourthly, in many instances the level of benefits provided under existing provisions is not adjusted to take account of recent changes in wage rates and in prices. Fifthly, the duration of benefits is frequently too short to provide workers with a socially acceptable minimum income security throughout their periods of involuntary unemployment. With these shortcomings removed, unemployment insurance would become a more effective instrument to cope with the human consequences of unemployment. As a supplement to insurance schemes, it would also be desirable to institute some type of assistance scheme to provide especially for workers who do not qualify for an insurance benefit and for those for whom supplementation of benefit may be required from the start, as in the case of those with large families.

Another general condition is the need for adequate information and administrative machinery for the implementation of full employment policy. Clearly, no effective action could be taken against any type of unemployment without a full knowledge of the particular situation in which unemployment arises and all the relevant facts needed for a sound decision as to which specific courses of remedial action are most appropriate. Adequate

information is thus an essential prerequisite for full employment policy. It may be stressed that information required for the formulation of such a policy covers extensive fields of economic activity. There is a need not only of statistics of the number of workers without jobs, but also of well-organised data on national income, industrial production, productivity of workers, foreign trade, prices and wages, money and capital market, conditions of natural resources and a great many other aspects of the nation's economic and social life. Further, it is important that data on current economic conditions be made available as quickly as possible. Information that is out of date may be of little value as a guide to policy. The development and organisation of adequate economic information services, private as well as public, national as well as international, therefore constitutes one of the first necessary steps in the formulation of a concrete programme of action against unemployment.

To meet the challenge of unemployment, there is an equally basic need for adequate governmental administrative machinery. The maintenance of full employment is primarily a responsibility of Governments. Effective administrative machinery, therefore, needs to be developed for making sound recommendations on employment policy and for taking expeditious action to enforce these recommendations. In developing such administrative machinery, it would seem desirable that action of different governmental agencies should be co-ordinated to avoid wasteful duplication of functions and to ensure proper timing in carrying out different aspects of a plan to combat unemployment.

#### UNEMPLOYMENT ARISING FROM DEFICIENCY IN AGGREGATE DEMAND

It is now widely recognised that unemployment arising from deficiency in aggregate demand can be prevented by appropriate public policy. In many countries the maintenance of total expenditure on goods and services produced in the economy at a full-employment level has become one of the major objectives of the Government's economic policy. The methods or combination of methods to be pursued to achieve this objective will necessarily differ in each country according to the structure of the economy, the form of economic organisation and the stage of economic development. They may also vary according to the particular circumstances in which this type of unemployment arises.

To maintain total expenditure generated within the country, two main lines of action may be taken—the stabilisation of the rate of domestic investment and the stabilisation of consumers' demand.

In view of the fact that the instability of private domestic investment has been the main cause of general unemployment in private enterprise economies, the prevention of its periodic decline, or the bringing into play of an alternative source of demand if it cannot be prevented from declining, seems to be of particular importance in those countries. There are a variety of measures which Governments may employ to improve incentives to private investment. These include the extension of credit facilities, the lowering of interest rates, the provision of special tax incentives and Government promotion of industrial research and development of new industries and new products.

It should, however, be noted that over-expansion of private investment in a given period may result in excess capacity and a reduction in profits in the industries in question and thus may itself discourage investment in subsequent periods. On the other hand, it also seems possible that because of temporary saturation of investment opportunities, efforts to stimulate private investment may not yield a level of investment adequate for the maintenance of full employment. These considerations point to the need for expansion of public investment to offset the decline in private investment or in other components of expenditure.

In adopting public investment as an instrument for maintaining full employment, certain principles might be usefully observed. First, the projects to be undertaken should enhance the wealth and productivity of the country. Secondly, in the selection and execution of public investment projects, a distinction may be made between long-term projects of national resources development and short-term projects designed primarily to relieve unemployment. While the former may tend to offset long-term decline in private investment, the latter may act as a counter-cyclical device. The volume of the former type of public investment needs to be co-ordinated with the long-term trends of private investment. The effectiveness of the latter type in combating unemployment depends upon whether it can be put into use precisely at the time and the place it is needed. For this purpose it would be desirable to have prepared a carefully planned reserve of public works projects to be undertaken both by central and local Governments, so that they can be immediately carried into operation whenever and wherever the occasion arises. Thirdly, public investment need not be



confined to investment in fixed capital. In certain circumstances, a Government may find it equally necessary to invest in surplus stocks of commodities which tend to exert a destabilising influence on the market. In the past, Government stockpiling programmes have been limited mainly to primary products. This compensatory device might, however, also be applied to industrial goods to forestall unemployment arising from a decline in the manufacturers' and wholesalers' demand for inventories.

Another line of action that Governments may take to maintain full employment is to stabilise expenditure on personal consumption. When the level of aggregate demand declines, Governments may adopt measures to increase such expenditure. This may be done by increasing the income available for private spending, for instance, by reducing personal taxation or by increasing Government payments to individuals on account of social service benefits, consumer bonuses and so on. This action may be supplemented by a reduction of taxes on commodities, designed to reduce the prices of goods on the market and so to stimulate demand.

The choice between stabilisation of investment and stabilisation of consumers' demand and between various combinations of these two methods would depend upon the particular situation in the country concerned. In countries where capital formation has already reached high levels, and further rises in productivity may be achieved largely by capital-saving inventions combined with effective utilisation of depreciation allowances, it might be more consistent with the wish of the community to divert an increased portion of the country's resources to production for immediate consumption rather than for capital formation. In fact, it may be that, despite all efforts to maintain a high and stable level of private investment, the volume of total investment in highly developed economies may still not be large enough to offset the volume of savings at a full employment level in the long run. In this case, measures designed to increase the proportion of consumption to national income would be desirable. In countries where capital requirements still remain high and savings low, it may be in conformity with their long-term social and economic interest to give more emphasis to the expansion of investment as a means of stabilising aggregate demand.

The choice of methods, however, may also be governed partly by the criterion of efficacy. While, it is true, the employment of either method will be operated mainly through governmental fiscal policy, that is, through appropriate variations in Government

expenditure and revenue, central as well as local, it would seem that stimulation of consumers' demand takes less time to achieve its desired effects than expansion of public investment, since in one case a properly planned reduction of taxation by itself will be a sufficient operation, whereas the other case would involve a series of administrative actions which are by nature time-consuming. Given a carefully planned tax policy with sufficient flexibility, the effects of stimulating consumption would also seem more certain than the method of stimulating private investment, as the latter will be subject to the influence of numerous intractable factors. On the other hand, it may be difficult, merely by manipulating taxes and social security benefits, to generate a large increase in consumers' spending. In most circumstances, and especially if there is a prospect of a serious deficiency of aggregate demand, the two main lines of attack on the problem must be regarded as complementary rather than as alternatives.

The two lines of action to maintain aggregate demand considered above are general approaches which may not be sufficiently effective in dealing with certain cases of unemployment arising from deficiency in aggregate demand. One such case, as demonstrated by the mild recession in the United States in 1949, is the decline in employment due to the liquidation of excessive inventories held by manufacturers and wholesale dealers. To remedy such a situation, the policy of stimulating a general expansion of consumers' demand and the rate of total investment may not be appropriate. It may only postpone the process of inventory liquidation which would eventually take place and may, in the meantime, lead to an increase in inflationary pressure. In such circumstances specific measures would be needed to enable the excess inventories to be removed from the market without reducing the volume of employment. Furthermore, to prevent the occurrence of such a situation Governments may find it necessary to develop specific devices for the stabilisation of inventories at appropriate levels throughout the economy.

Another important case in which general approaches alone may be found inadequate is that of a rise in unemployment in export industries arising from a decline in foreign demand. In certain countries export industries provide a considerable portion of the country's national income and employment. Where this proportion is large, the extent to which the general expansion of domestic consumers' demand and domestic investment can offset the decline in foreign demand is likely to be limited. In any case

it may be impossible to direct a sufficiently large domestic demand to purchase the things which foreigners have stopped buying. Moreover, efforts to increase domestic demand may raise the prices of export goods and thus further reduce their sales in foreign markets

In addition to such general measures, there will be need for specific measures directed towards the removal or mitigation of particular difficulties experienced by the export industries. Should foreign demand fall because the prices of export products exceed those of the foreign competitors, it would be necessary to take measures to reduce costs of production or in certain circumstances to readjust exchange rates. If the decline in foreign demand for certain exports is a result of well-established long-term trends, Governments might take steps to facilitate and promote fundamental readjustments of the country's industrial structure. If foreign demand declines only because of a temporary fall in aggregate demand in the importing countries, the Government may find it expedient to maintain the production of export industries by schemes of subsidy, guaranteed prices and stock-piling. Actions of the latter kind assume a special importance in countries producing primary commodities mainly for world markets.

Thus any policy for the prevention of unemployment arising from deficiency in aggregate demand would need to include action designed to stabilise the general level of investment and consumption, as well as action directed specifically towards the particular sector of the economy in which the deficiency in demand originates.

Finally, it may be pointed out that any policy for the prevention of this kind of unemployment would need to be so designed as to promote other social objectives such as continuous economic growth, steady advance in standards of living and social progress. When employment policy is so broadly conceived and framed, it will surely be given undivided public support and lasting social acceptance.

#### UNEMPLOYMENT AND UNDEREMPLOYMENT IN THE UNDERDEVELOPED COUNTRIES

The major problem of employment confronting the underdeveloped countries is of a different nature. It arises, not from the deficiency or instability of aggregate demand (though this

problem may arise too), but from the shortage of capital equipment or other complementary resources. In many of these countries the problem finds its expression mainly in the underemployment of the agricultural population with extremely low productivity and income, and it tends to become increasingly serious with increases in population. The situation is one which calls for kinds of action different from those considered in the preceding section.

To create employment opportunities for the surplus agricultural labour, remedial action may be taken simultaneously in two main directions—land settlement and industrial development.

By reclaiming additional land for cultivation, the existing agricultural population can be provided with more land per head and hence with a better opportunity to utilise their labour fully and to earn a higher income. Food supply in those countries will, at the same time, be increased. In formulating any concrete programme of land reclamation and settlement, it would be necessary, first, to investigate thoroughly the country's land resources and to estimate the capital cost required to transform the present uncultivated but potentially cultivable land into land ready for cultivation and, secondly, to devise effective schemes to encourage and assist the underemployed agricultural workers to move to and settle on the newly reclaimed land. Such schemes may include Government subsidies in the form of settlement allowances, provision of farming equipment and housing facilities at low rents, and arrangements for agricultural workers to purchase the land on attractive terms.

The extent to which land reclamation and settlement may be adopted as a means of creating employment opportunities for surplus agricultural workers will depend on the availability of land that is not but can be cultivated and on the relative expected returns from capital if it were invested instead in industrial development in the country concerned. While some of the underdeveloped countries at present still possess large areas of suitable land in relation to the size of population, in many of these countries the area of such land is much too limited to be counted upon as a major outlet for the existing surplus agricultural population. For such countries the solution of unemployment and underemployment lies chiefly in industrial development.

The speed of industrial development in the underdeveloped countries will be governed mainly by the supply of entrepreneurship, capital and industrial skill. A basic aim of their economic policy will be, therefore, to expand the supply of all these three

factors of production. A lag in the supply of any one factor would retard the whole process.

In regard to entrepreneurship, the country concerned, first of all, would need to decide upon the respective scope for public and private entrepreneurship in the programme of industrial development. The relative part to be played by each may differ markedly in different countries according to the particular social, economic and political conditions. From the point of view of industrial development alone, two considerations might enter into any such decision. One is the relative speed with which each type of entrepreneurship can be made to expand to meet the needs of industrial development. The other is the relative efficiency that may be expected of each type of entrepreneurship. In countries which encourage both types, it seems essential that the scope for each should be precisely defined so as to ensure that the growth of private entrepreneurship will not be hindered by uncertainties about the future scope of its activities. Further, if private entrepreneurship is to be encouraged, a complementary relationship needs to be established as far as possible between public enterprises and private enterprises. To the extent that they are competitive with each other, such competition should be conducted on grounds of relative efficiency. Specific measures to encourage private entrepreneurship might include the promotion of business education, the provision of various forms of financial incentive and of technical assistance to specific industries, and public development projects designed to reduce the level of industrial costs, particularly with respect to power and transport.

The shortage of capital is a key factor responsible for the conditions of underemployment and poverty in the underdeveloped countries. Even when sufficient entrepreneurship is available, lack of capital may severely limit the possibility of rapid industrial development. Action to accelerate the rate of capital formation in these countries may proceed simultaneously along two different lines. First, the fullest and most effective use needs to be made of domestic resources for purposes of capital formation. To achieve this end, measures may be adopted (*a*) to increase domestic savings and to channel them into the most productive investments, (*b*) to mobilise and train existing idle or underemployed manpower for carrying out various projects of capital construction, (*c*) to expand, as rapidly as possible, the domestic production of materials which are most likely to constitute bottlenecks hindering the whole programme of capital construction, and (*d*) to introduce

in industries and agriculture, as rapidly as possible, those improvements in methods of production and organisation which require comparatively little capital expenditure, so that resources may be released from industry and agriculture for capital formation without reducing output. Secondly, there would also be need for specific concrete measures to promote the inflow of foreign capital in order that the deficiency in domestic resources for capital formation might be fully made up by supplies of resources from abroad. Moreover, in an accelerated process of capital formation, it would be particularly important to avoid the consequences of excessive rises in prices and wages. While a certain amount of inflationary pressure may be inevitable during such a process, it would, nevertheless, be possible to keep inflationary pressure to a minimum by appropriate means of financing, and to bring inflationary pressure under control through the instrument of fiscal policy.

The surplus agricultural workers would need to acquire the necessary industrial skill before they could take up productive jobs in modern industries. For this reason it would be essential for the Governments to initiate, with the co-operation of management and labour, national programmes of manpower training during the early stages of industrial development. Such a programme would, of course, have to be closely co-ordinated with the skill requirements set forth in the particular programme of industrial development adopted by the country concerned. The training programme would need to be broad enough to cover not only the training of industrial workers but also that of technicians, experts and administrators required for the execution of the industrial development programme.

In planning for industrial development, special consideration may be given to two problems. One problem arises from the fact that in many underdeveloped countries surplus agricultural labour may be localised in certain regions of the country. Thus it would seem desirable that the locational pattern of industrial development should be so planned that, wherever this is economically feasible, the new industries to be developed should be located as near as possible to regions of surplus labour, so that the employment opportunities created by those industries will be within the reach of the unemployed and the underemployed. To facilitate the development of industries in suitable locations, Governments may take steps to enlarge the possibilities of industrial decentralisation by such methods as rural electrification and development of

transport and credit facilities for these regions and to encourage private enterprises to move to these regions by the provision of special financial inducements. In some regions of surplus labour where resources and economic conditions hold little prospect for industrial development, the Governments may provide special assistance, financial or other, to the population to move to the new industrial regions where productive jobs are available.

Another problem that may arise in the course of economic development is the possibility of large-scale technological unemployment resulting from the displacement of handicraft workers. This possibility seems particularly serious in countries where handicraft industries still play a predominant role in the production of manufactured goods. To mitigate the depressing effect of the growth of modern industries upon the handicraft sector of the economy, there may be a case for developing modern industries, at least in the initial stages, along lines complementary to, rather than competitive with, the handicraft industries, in so far as this is economically feasible. It may also be necessary to modernise the existing handicraft industries with respect to technique, equipment, organisation and marketing. However, even if action is taken along the above lines, a certain amount of technological unemployment may be unavoidable. The need for reabsorption of displaced handicraft workers makes it all the more necessary for the underdeveloped countries to plan their projects of capital investment in such a way that a given amount of capital expenditure will produce the maximum employment-creating effect consistent with the objective of raising productivity. This aspect of planning for industrial development seems to be of great practical and current importance and deserves further study and investigation.

In addition to chronic underemployment, agricultural communities in the underdeveloped countries also suffer from long periods of seasonal unemployment. In many instances, opportunities to earn supplementary incomes during these intervals are vital to the maintenance of the minimum level of subsistence. Such opportunities may be provided in a number of ways. First, measures may be taken to develop new rural industries and to modernise and expand the existing ones. Secondly, Governments may undertake public work projects, particularly those concerned with the conservation and improvement of natural resources, which can be dovetailed with the seasonal rise and fall in the excess supply of agricultural labour. Thirdly, various types of mixed farming may be introduced into rural districts where this

kind of farming is not in practice, either because of lack of adequate agricultural knowledge or because of lack of financial resources. Finally, Governments may take effective measures to facilitate seasonal migration of agricultural workers seeking temporary jobs inside or outside the country

Even when both chronic underemployment and seasonal unemployment are eliminated, there still remains a need—from the point of view of income levels and productivity—to reduce substantially the high labour requirements involved in the present methods of cultivation practised in most of the underdeveloped countries. It may be observed that in those countries the low productivity and income of the agricultural population is due not only to underemployment or seasonal unemployment but to the fact that under the present labour-intensive method of cultivation the maximum output that each person can be expected to produce is extremely small. In order to bring about a substantial increase in their standards of living, it would be necessary to introduce labour-saving devices into agriculture, so that each fully employed agricultural worker will be enabled to produce considerably more than is possible at the existing levels of technique.

The introduction of labour-saving devices would, however, release additional numbers of workers from agriculture. For this reason, new land settlement and the rate of industrial development together in these countries should be rapid enough not only to absorb the existing surplus labour, the displaced handicraft workers and the annual increase in population of working age, but also to create new employment opportunities for workers to be released from agriculture as a result of the introduction of such devices. The problem before the planning authority would thus be one of achieving proper synchronisation between the rate of mechanisation in agriculture and the rate of industrial development. The rate of mechanisation in agriculture, once properly determined, would probably need a great deal of Government assistance to carry it through. Government assistance would consist of experimentation with various types of labour-saving devices and equipment for regions of different needs, educating farmers to operate such equipment, supervising its production, lease and sale at low rates, and the provision of other financial facilities. In many of these countries mechanisation of agriculture would also require Government legislation for the consolidation of fragmentary holdings and governmental initiative to reorganise the existing farm enterprises on a co-operative basis.



## FRICTIONAL UNEMPLOYMENT

Not all unemployment can, however, be traced to a shortage of aggregate demand or to a shortage of capital. Even when the volume of capital and the level of aggregate demand are both at a high level, any country may experience unemployment because particular skills in the labour force may not correspond to those that are in demand. This frictional unemployment usually arises from changes in the demand conditions for particular products and from technological innovations which displace workers from particular jobs. These frictionally unemployed workers need to be transferred to industries and occupations in which jobs are available.

In dealing with frictional unemployment, emphasis may be placed on programmes to improve the organisation of the employment market in order to adjust the supply of workers to the effective demand for their skills and services. In particular, measures to deal with frictional unemployment usually require greater mobility in the labour force, occupationally and geographically.

Thus there is urgent need for adequate measures and machinery for bringing men and jobs together expeditiously, for adapting skill to changing manpower requirements and for ensuring that at any given moment in each economy frictional unemployment represents the practical minimum consistent with economic and social progress.

To achieve these objectives, one important line of action is to maintain an alert and strong public employment service, adapted to the exigencies of the national employment market. This service can reduce the time interval between jobs and also, by placing workers effectively so as to make the maximum use of their skills, can contribute directly to the achievement of greater productivity, it can also provide reliable and detailed information on labour supply and demand, which is essential for planning and action against all kinds of unemployment.

Each national employment service could also accept greater responsibility for encouraging the mobility of labour necessary in the economic circumstances and consistent with the political and social principles accepted in the particular economy concerned. This, in turn, involves practical action aimed at providing unemployed workers with technical assistance (through information, guidance, and other facilities) and financial assistance (to help them to move to another industry, occupation or area).

Another major line of action is the training and retraining of

workers to meet specific manpower needs. This will both develop the necessary skills and versatility in the labour force and make possible the occupational mobility of labour necessary for matching labour supply and demand. Thus, training services need also to be maintained at full strength and efficiency as a weapon for combating frictional unemployment. The training provided needs to be kept constantly under systematic review with a view to ensuring that it is directed towards existing and prospective manpower requirements.

Further national action may also be required to improve the information available on employment and unemployment and their trends, to develop more logical and broadly based recruitment policies for the different industries and occupations, and to facilitate the re-employment of particular groups of workers.

To have their full effect, measures designed to combat frictional unemployment through improved labour market organisation may be co-ordinated with other aspects of public policy relating to unemployment, they need to be formulated in close co-operation with employers' and workers' organisations, and to be considered and adopted in sufficient time to be of maximum use in the employment market. It would also be highly useful to develop national advisory machinery of a representative tripartite character for analysing and reviewing the employment situation and for making recommendations for appropriate action.

In some instances "depressed areas" may develop in which the proportion of workers who become frictionally unemployed is substantial. It may be costly and inconvenient for such large numbers of workers to move away from these areas to other communities where jobs are available. Under these conditions Governments may seriously consider measures to encourage the allocation of new investment to distressed areas. The development of such highly localised unemployment may be prevented if measures are taken to encourage diversification of industry and thus to prevent the serious consequences to employment of sudden changes in demand for particular products.

#### INTERNATIONAL ACTION

The kinds of action against unemployment considered so far fall mainly within the sphere of national action. It is, however, widely recognised that the problems of unemployment in advanced industrial countries as well as in underdeveloped countries cannot

be effectively solved by national action alone. Their solution also requires effective international action.

As is shown by past experience, unemployment arising in a major trading nation from a deficiency in aggregate demand has wide international repercussions. It spreads from country to country through a contraction of world trade. A first important line of international action in dealing with this type of unemployment is therefore to seek to stabilise the volume of world trade. Further, to enable full employment to be achieved with maximum real income, there is a need not only for stabilisation but for continuous expansion of world trade, so that the world as a whole may enjoy to the full the economic gains of international division of labour. Toward these objectives substantial progress has been made in recent years in the form of tariff reductions negotiated among various countries under the General Agreement on Tariffs and Trade in 1947 and 1949. It may also be noted that a body of internationally negotiated principles for the removal of trade barriers and the expansion of world trade has been put forward in the Charter of the proposed International Trade Organisation.

A reduction of trade barriers by itself, however, would not be sufficient to ensure a continuous expanded flow of world trade. The volume of world trade, in the short term, is determined largely by the level of aggregate demand in the trading countries. A fall in the aggregate demand in any country would reduce its demand for imports even if trade barriers had been reduced. This would mean a decline of exports from other countries. As a consequence, unemployment in the export industries in those countries would tend to rise. A second, and perhaps the most important, line of international action against mass unemployment is to promote concerted national action, through continuing consultation among Governments, aimed at the maintenance of full employment in each country. The necessity of concerted action on the international level is further emphasised by the serious balance of payments difficulties which a country may encounter if it attempts to pursue a full employment policy in isolation while other countries are in a state of economic depression. Recognising the need for concerted action in this vital field of international economic co-operation, the United Nations Economic and Social Council has kept under continuing review the measures currently taken in various countries for the purpose of achieving full employment.

If aggregate demand should fall and unemployment rise in one of the major trading nations, other trading nations may find it necessary to resort to import restrictions, exchange control and currency depreciation to protect their balance of payments from further deterioration as a result of reduced exports, and to enable them to pursue independently their own domestic full employment policies. That it may be necessary in such circumstances for countries to adopt such measures has now been generally recognised. It has, however, also been recognised that the effectiveness of such restrictive measures is limited, principally because they are likely to lead to a cumulative contraction of world trade, employment and income, detrimental to the economic interests of all countries.

The inadequacy of these measures thus points to a third line of international action to prevent the international propagation of unemployment—international arrangements to ensure that the currencies of the major countries could be made available to the world on a stable basis, regardless of whether these countries were in fact purchasing their usual requirements of imports or not. A concrete step in international economic collaboration towards this end is the establishment of the International Monetary Fund, which is authorised to make its financial resources available to members under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

A fourth major line of international action to stabilise world aggregate demand and unemployment is to establish international schemes for the stabilisation of the prices of the world's leading primary commodities. In past depressions, these commodities have, in comparison with the prices of other commodities, declined first, most severely and for the longest time. The consequent reduction of primary producers' income and expenditure has spread unemployment through their economies. The prices of these commodities are determined by world demand and supply conditions and in many cases cannot be brought under effective control by national action alone. The instability of receipts from exports of these commodities, arising from wide fluctuations of their prices, has been in the past a major source of economic instability in the primary producing countries generally, and particularly in underdeveloped countries. This has in turn led to fluctuations in the demand of the latter countries for imports from the advanced

industrial countries. Stabilisation of the prices of these commodities, which would bring great economic benefit both to the underdeveloped and to the advanced industrial countries, would depend primarily upon concerted international action in the form of international commodity agreements. Principles governing the conclusion of such agreements are developed in the Charter of the proposed International Trade Organisation. The technique of stabilisation may take various forms, including the creation of buffer stocks and the guarantee of supply and demand by exporting and importing nations. The latter technique has been adopted in the Fourth International Wheat Agreement drawn up in 1949. In some cases, international commodity schemes might be needed to facilitate the restoration of equilibrium between long-term trends of production and consumption of the product concerned, in the form of co-ordinated efforts to expand consumption or of collectively agreed programmes of orderly downward adjustments in production. In all cases, however, it would be important that the levels at which the prices were stabilised should be fair to both producers and consumers.

These four lines of international action—promotion of world trade, concerted national action to maintain full employment, international arrangements to ensure the availability of the currencies of major trading countries, and international commodity schemes for the stabilisation of the prices of primary commodities—would, if energetically pursued by all nations, go a long way towards preventing the recurrence of mass unemployment arising from deficiency in aggregate demand and spreading throughout the world through the medium of its depressing effects on world trade.

International action is equally needed to eliminate chronic unemployment and underemployment in the underdeveloped countries. In attempting to solve their problem of employment, the underdeveloped countries are faced with three main difficulties. The first difficulty is the lack of domestic savings and domestic resources needed for rapid expansion of capital equipment. The second is the lack of technical knowledge and skill to make the most productive possible use of their own manpower and material resources. The third difficulty is that in some of these countries the present size of population in relation to potential resources is already so large that the employment opportunities to be created by domestic industrial and agricultural development are fairly limited in relation to the need. Each of these three difficulties

could be reduced, in varying degrees, by appropriate international action

A first line of international action to help to solve the problem of unemployment in the underdeveloped countries is to expand the flow of long-term capital from the advanced industrial countries to the underdeveloped countries for purposes of economic development. Such capital may be provided from private sources and from foreign Governments as well as from international organisations. The volume of such capital available would need to be commensurate with the development needs of the underdeveloped areas of the world. It would also need to remain stable over considerable periods of time. To achieve these ends, there would be need for specific and concrete measures in both borrowing and lending countries to remove obstacles to, and create a favourable environment for, an expanded flow of international investment. The creation of the International Bank for Reconstruction and Development has made a significant contribution towards the development of an adequate international machinery for the promotion of international investment.

It may be noted that an expanded programme of stable long-term foreign lending from advanced industrial countries is not only essential to the solution of chronic unemployment and underemployment in underdeveloped countries, but may also be necessary for the prevention of unemployment in the advanced industrial countries themselves. Such a programme would assist the latter countries in maintaining high levels of exports, thus reducing the possibility of cyclical decline in aggregate demand in those countries. Moreover, for some of the advanced industrial countries now incurring heavy dollar deficits, an expanded flow of lending from dollar countries to the underdeveloped countries could lessen greatly their difficulty in meeting their dollar deficits, if the proceeds of lending from dollar countries could be made available to them through their sales of materials and capital equipment to the underdeveloped countries.

A second line of international action against unemployment and underemployment in the underdeveloped countries is for the advanced industrial countries to put their accumulated technical knowledge and experience at the disposal of the underdeveloped countries so as to facilitate the latter's process of economic development. International action in this vital field has now begun to take concrete shape in the form of President Truman's Point-Four Programme and the United Nations expanded programme of

technical assistance approved by the General Assembly in November 1949. In this particular field of international action, the existing international organisations can play a most useful part, since most of these organisations are specialised precisely in those technical subjects which are of special relevance to the economic development of the underdeveloped countries. In providing technical assistance to these countries, it may be necessary to bear in mind that their social and economic conditions are vastly different from those in the advanced industrial countries. Consequently the knowledge and methods of advanced industrial countries must be adapted to the particular requirements of local conditions.

A third line of international action to mitigate chronic unemployment and underemployment in the underdeveloped countries lies in the field of international migration. For countries which are suffering from overpopulation in relation to available employment opportunities, international migration offers one means of relief from unemployment or underemployment. The International Labour Organisation, whose interest in migration problems is of long standing, has made continuous efforts to develop a satisfactory international code of principles which would safeguard the rights and interests of the migrants as well as those of the national workers within the country receiving immigrants. International standards have also been formulated by the Permanent Migration Committee of the I.L.O. to assist in migration for land settlement. In an effort to increase international labour mobility, the I.L.O. has, in collaboration with the United Nations and the other specialised agencies, also taken the initiative in promoting international migration.

International action will not only be essential for the solution of the two major types of unemployment considered above, but can also be useful in reducing frictional unemployment. Exchange of international experience regarding methods of improving employment services and of organising training and vocational guidance and the provision of technical assistance from one country to another could do much to reduce the volume of frictional unemployment in countries which lack experience in the organisation of the employment market. In this field the International Labour Organisation has accumulated a great deal of experience, and is ready to offer technical assistance to countries in need of such assistance.

Furthermore, as past experience has shown, frictional unem-

ployment in a serious form often arises from long-term changes in the international distribution of industries. With a view to mitigating the impact of the development of new industries in some countries on employment in the old producing centres, consideration might be given to the desirability of promoting some form of international co-ordination of investment and production programmes in certain industries in which long-term market prospects indicate that frictional unemployment is likely to increase seriously.

The recognition that unemployment and underemployment are social evils which can be eradicated represents a landmark in the thinking of modern times. No longer is there a passive acceptance of the inevitability of unemployment and poverty. The achievement and maintenance of full employment and increasing productivity is no easy task. It requires concrete programmes of national and international action. It requires the active co-operation of employers and workers. Programmes in particular countries will vary according to their social and economic conditions. They will need to be supplemented by international action which recognises that poverty anywhere constitutes a danger to prosperity everywhere. The effort will be amply worthwhile if it enables Governments to fulfil the promise of the United Nations Charter to bring "higher standards of living, full employment and conditions of economic and social progress and development" to all peoples of the world within our own generation.

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## APPENDICES

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## APPENDIX I

### RESOLUTION CONCERNING UNEMPLOYMENT, ADOPTED BY THE INTERNATIONAL LABOUR CONFERENCE AT ITS 32nd SESSION, GENEVA, 1949

Whereas the Preamble to the Constitution of the International Labour Organisation lays down as one of the main aims of the I L O the prevention of unemployment,

Whereas the Declaration of Philadelphia recognises the solemn obligation of the I L O to further among the nations of the world programmes which will achieve full employment and the raising of the standard of living;

Whereas the I L O has been carrying on a number of activities of a practical nature which seek to diminish unemployment and to enhance the opportunities for effective employment, notably assistance to various States in—

- (a) the improvement of employment services;
- (b) the development of vocational guidance and vocational training both for young persons and adults,
- (c) the implementation of migration programmes among both countries of emigration and countries of immigration, and
- (d) the improvement of social security services,

Whereas nevertheless in a number of countries unemployment has recently been increasing to a considerable extent,

Whereas unemployment undermines the standard of living not only of the unemployed, the partially employed and their dependants but also of employed persons;

Whereas some systems of unemployment insurance or assistance are inadequate as to scope, the level of benefit or allowance and the period of eligibility for benefit or allowance,

Whereas a comprehensive survey of the present situation is desirable as a basis for the discussion of any concrete measures which may appear necessary,

The Conference requests the Governing Body—

1. To give consideration to instructing the Director-General to prepare, without delay, a comprehensive report on the problem of unemployment, including, so far as possible, information relating to—

- (a) the situation and trend of employment, unemployment and partial unemployment in the different countries,
- (b) the effects of unemployment and partial unemployment upon the standard of living of those directly concerned and their dependants and of all wage earners,
- (c) measures taken—

- (i) to alleviate the effects of unemployment and partial unemployment,
- (ii) to raise the level of employment, more particularly by the expansion of international trade, the development of basic industries and other measures directed towards increasing the volume of employment opportunities

2 To consider the desirability of placing on the agenda of an early session of the Conference the question of unemployment, with a view to achieving fuller and more effective use of manpower, both within each nation and internationally

3 To instruct the International Labour Office, in connection with its manpower programme—

- (a) to continue to follow questions of employment and unemployment with the closest attention;
  - (b) to co-operate with the United Nations and the specialised agencies directly concerned in the reporting and analysis of employment and unemployment and in the formulation of recommendations to combat unemployment
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## APPENDIX II

### THE EXTENT OF UNEMPLOYMENT, 1945-1949: THE EXPERIENCE OF COUNTRIES FOR WHICH UNEMPLOYMENT STATISTICS ARE AVAILABLE

#### Africa

*Nigeria* Nigeria provides statistics of applicants for work at the employment exchange at Lagos. From an average of 6,400 during the second half of 1945, registrations have shown only minor variation until the present time. In August 1949, 5,149 applicants were on the register.

*South Africa* In South Africa, unemployed registered at labour exchanges during the first half of 1946 slightly exceeded the very low level of registrations in 1937, 1938 and 1939. Improvement was recorded in the second half of 1946. From 1 January 1947, registration became obligatory for unemployed persons. During the year an average of 10,266 unemployed was recorded. In 1948, registrations were slightly higher except towards the close of the year. During 1949, unemployment again increased. Persons out of work in December 1949 numbered 18,908 compared with 8,477 a year earlier. Unemployment among persons of European race and other races had both more than doubled.

The highest level reached still represented only a very low rate of unemployment. Economic conditions generally since 1945 have been very favourable.

#### America

*Canada* Post-war unemployment in Canada rose quickly until the first quarter of 1946, when the rate was 4.7 per cent of the civilian labour force or just under 7 per cent of wage and salary earners. During the second half of 1946 and throughout 1947 and 1948, rates were at low levels, averaging about 2 per cent of the civilian labour force. Unemployment during the winter of 1947-1948 was noticeably higher than in the previous winter, but the seasonal expansion in employment during the second quarter of 1948 reduced unemployment to even lower rates than in 1947. The absolute numbers unemployed were slightly higher, however.

A slight downward trend in employment which appeared towards the end of 1948 was reinforced by a severe winter, and the numbers of ordinary claimants on the live unemployment insurance register reached 208,818 in February 1949 compared with 161,997, 110,062 and 146,074 in the corresponding month of 1946, 1947 and 1948. The seasonal decline in claimants each month between February and June 1949 was, however, greater than in the previous year. In mid-1949

there were 80,391 claimants compared with 56,509 in June 1948.<sup>1</sup> This rapid recovery suggests that most of the increase in unemployment in 1948-1949 in excess of the normal seasonal movement was due to temporary causes.

Industrial production reached a peacetime record during the 1949 summer. Employment in manufacturing was at approximately the same level as in the previous year. Total employment in all industries was slightly higher. Future prospects, however, were dependent on conditions in export trade.<sup>2</sup>

Seasonal unemployment made its normal appearance in the late autumn. In line with the higher ruling rate of unemployment throughout 1949, compared with the previous year, the seasonal movement was also more pronounced. There were 152,269 unemployment benefit claimants in November against 83,710 in November 1948. In December their numbers increased to 222,064 and in January 1950 to 297,238, nearly 100,000 above the January 1949 level. The major part of the increase was due to dislocation as a result of the worst winter season for many years and to difficulties in marketing exports.<sup>3</sup>

*United States* At the conclusion of the war in 1945, unemployment in the United States of America was approximately 2 per cent of wage and salary earners. In 1946, the rate was slightly over 5 per cent. Average monthly unemployment decreased slightly from 1946 to 1947 and again in 1948. Civil employment reached a post-war peak in the third quarter of 1948. On the average, 4.2 per cent of wage and salary earners were unemployed in 1948, or, expressed on a broader basis, 3.4 per cent of the civilian labour force.

Average duration of unemployment was lower in 1948 than in 1947—8.6 weeks compared with 9.8 weeks—and during 1948 unemployment was reported to be due primarily to changing of jobs, short-period layoffs and seasonal factors and therefore was largely "frictional" in nature.<sup>4</sup>

The movement in total numbers of wage and salary earners in non-agricultural employment in the first half of 1949 was not unlike that of the two previous years except for (i) slight but cumulatively significant monthly declines after February (when a sudden drop occurred) and (ii) the absence of the usual strong upsurge in May and June.

The number of persons unemployed increased each month from November 1948 to July 1949 except for slight declines in March and April. The large increases in unemployment in the mid-year months were due principally to the entry into the labour force of graduates from college and high school, including many ex-servicemen and students seeking temporary or seasonal work during vacations.<sup>5</sup>

Employment declined primarily in manufacturing, which lost 1,862,000 wage and salary earners between September 1948 and July

<sup>1</sup> Data for Newfoundland were included from Apr. 1949. In addition to ordinary claimants (83,525), there were 11,570 "other" claimants on the live unemployment register in Sept. 1949. "Other" claimants are persons who have been put on short time or who are in jobs classified as casual. They are not necessarily seeking other work. Compared with a year earlier, "other" claimants had increased by 7,000.

<sup>2</sup> *Labour Gazette* (Ottawa), Sept. 1949.

<sup>3</sup> Statement by the Prime Minister, *Montreal Gazette*, 21 Feb. 1950.

<sup>4</sup> BUREAU OF THE CENSUS. *Annual Report on the Labour Force, 1948.*

<sup>5</sup> The number of persons who graduated was estimated to be 200,000 to 250,000 higher than in 1948. The June 1949 unemployment figure included half a million persons, mostly young people, who had never before had a job lasting over two weeks.

1949 and which showed a decline during each month except June. It was not until August 1949 that the downward trend in employment in manufacturing was reversed. Total wage and salary earners with jobs in non-agricultural industries had increased slightly in June and July, but the first significant expansion occurred in August. Total numbers engaged in non-agricultural industries (including working proprietors and others) had by then recovered to 51,290,000, almost the level of October 1948 (51,506,000).

The labour force, however, had continued to expand and 3,576,000 persons were unemployed at the beginning of October 1949. This was equivalent to 5.7 per cent of the civilian labour force. Disputes in the coal and steel industries created conditions unfavourable to recovery. Unemployment showed little change until January 1950, when workers without jobs totalled 4,480,000. The increase of nearly a million between 10 December and 14 January appeared to be due primarily to the curtailment in seasonal industries.<sup>1</sup> Bad weather in many parts of the country accounted for the unemployment of large numbers of construction and farm workers. Total non-agricultural employment was slightly higher than in January 1949 but agricultural employment was 600,000 less than a year earlier.

An analytical study of economic trends in the United States of America was given in chapter II.

*Puerto Rico* Unemployment data for Puerto Rico are obtained from published results of the monthly labour sample survey which began in March 1946. There appears to have been a very slight downward trend in unemployment from 1946 through 1948, and the lowest figure so far recorded related to May 1949 (47,000). In July there were 65,000 unemployed, slightly less than a year earlier. During the next six months the situation worsened and 131,000 persons were estimated to be unemployed in January 1950, equal to 18.1 per cent of the civilian labour force.

### Asia

*Burma* Statistics for Burma relate to applicants for work at the labour exchange, Rangoon, since June 1947. They show that the number of applicants for work declined substantially between June 1947, when the total was 3,438, and December 1949, when it was 573.

During the latter half of 1949 the employment situation in Burma appears on the whole to have deteriorated, although unemployment registrations in Rangoon continued to decline.

Civil unrest resulted in widespread unemployment, but it is not possible to estimate the numbers of persons affected.<sup>2</sup> In November 1949 the Secretary of the Burma General Trade Union Congress estimated that more than 20,000 labourers were unemployed in Rangoon alone as a result of the closing down of British-owned timber mills and suspension of the rebuilding programme in the central Burma oilfields.

*Ceylon* Unemployment has been a long-standing problem in Ceylon. The numbers of registered unemployed in December of each year 1945-1949 were as follows: 1945, 21,366; 1946, 36,544; 1947, 34,744; 1948, 66,656; 1949, 69,732.

<sup>1</sup> BUREAU OF THE CENSUS *Current Population Reports—Labor Force*, Series P-57, No. 91, Feb. 1950.

<sup>2</sup> Official reply to the I.L.O. enquiry into manpower surpluses and deficits, Sept.-Oct. 1949.

During the war economic conditions in Ceylon were favourable to high employment. The demobilisation of service personnel and the release of many persons from civilian war service and special activities associated with the conduct of the war precipitated a general decline in incomes and employment. Certain industries have experienced difficulties under the more competitive conditions of peacetime.

Unemployment has become particularly severe in the urban area of Colombo as a result of the cessation of activities which attracted many workers from rural areas during the war. Moreover, despite this emigration of workers from rural areas, there is still an excess of labour in those areas. In Ceylon unemployment has become severe among educated persons seeking to enter commerce or Government service as salaried employees. A recent survey initiated by the Ceylon Minister of Commerce and Trade revealed that, of the persons who completed courses of elementary training in commercial subjects such as shorthand and typewriting, about one third were unemployed or underemployed and that the position was much worse in respect of persons who had higher educational qualifications.<sup>1</sup>

*India* Employment exchanges in India have supplied statistics of applicants for work since July 1945. At the end of 1946 there were nearly 300,000 persons on the live register. The number had grown to 350,000 prior to the partition of India and the creation of Pakistan, but the increase in registrations may have resulted, in part, from increased use of facilities of employment exchanges rather than a growth in unemployment. From September 1947 the statistics relate to the new State of India only. There was little change in the number of applicants until a rising trend appeared at the end of 1948. Registrations steadily increased from 228,938 in November 1948 to 337,002 in August 1949. In December 1949 the number was 274,335.

Unemployment in India since 1945 has been officially ascribed to three main causes: demobilisation of service personnel and the closing down of munitions factories, the migration of over five million persons from Pakistan after the partition, and shortage of capital and equipment for rehabilitation and expansion of industry.

At the same time, there are serious shortages of many types of skilled workers, including teachers and stenographers, while there are large surpluses of clerks and semi-skilled and unskilled workers.

No over-all statistics relating to employment in India are available, but during the latter half of 1949 the employment situation appears to have deteriorated considerably. The main reasons, as stated in the monthly reports of the Director-General of Resettlement and Employment, are continued closures of textile mills, particularly in Bombay State, as the result of the difficult supply position concerning raw cotton, retrenchment in large industrial establishments, and a stoppage of recruitment in others, suspension of plans for industrial expansion, Government economy measures including the postponement of work on hydro-electric and other development projects, and the difficulty of securing imported raw materials and equipment. An additional factor contributing to the emergence of disengaged labour, particularly in the cotton textile industry in South India and the United Provinces, is rationalisation and the introduction of labour-saving devices. These technological changes have followed the introduction of obligatory minimum wage rates and subsequently the establishment, at the request

<sup>1</sup> *Ceylon Daily News*, 7 Oct. 1949



of employers, of minimum workloads<sup>1</sup> Under the new conditions employers are disinclined to retain surplus workers on their payrolls.

*Israel.* There were at the end of the war in 1945 about 4,000 persons of Jewish faith registered at labour exchanges in the area then known as Palestine During the following year there was an increase of over 3,000 in unemployment and a further increase of 2,000 occurred in 1946-1947. These movements were not large in view of the inflow of immigrants, which had reached a rate of some 16,000 a year in 1944 and 1945 and expanded to 21,000 in 1947

In mid-1947 registered unemployed numbered 9,569 but during the next 12 months there was a decline of 50 per cent, despite further growth in immigration During the six months ending December 1948, 95,400 immigrants into Israel were recorded Registered unemployment decreased slightly in this period However, immigrants in transit camps are not covered by unemployment registrations

The number of registered unemployed then grew rapidly to 23,598 in June 1949 In December 1949 they numbered 25,300

Statistics of employment in manufacturing show that there was tremendous expansion between 1939 and 1945, but there followed severe contraction in the years 1946 to 1948 Progress of the economy was hampered by the war with the Arab States Part of the growth in unemployment is explained by the demobilisation of the armed forces after the cessation of the war These factors have accentuated the problem of absorption of large numbers of immigrants During the period January to June 1949 net immigration reached 140,000

Indications are that serious difficulties will be experienced for some time<sup>2</sup>

*Japan* There was extensive unemployment in Japan during the period of disorganisation following the end of the war Widespread underemployment also existed and apparently is still prevalent<sup>3</sup> A new index of industrial activity recently published shows that on the basis 1932-1936=100, the level of activity in 1944 stood at 208.8 and then fell precipitously to 87.1 in 1945 and 48.6 in 1946 The preliminary index for November 1949 was 96.2 compared with 83.0 a year earlier and 55.6 in November 1947.<sup>4</sup>

Since October 1947 statistics relating to the labour force, obtained from a monthly sample survey, have been published<sup>5</sup> The authorities in charge of the sample survey take care to point out that the project is still in the experimental stage and some modifications in procedures and concepts have had to be made in the light of experience Statistics of the numbers wholly unemployed, published in the *International Labour Review*, were previously derived from the estimates of total

<sup>1</sup> *Review of the Work of the Director-General of Resettlement and Employment*, Oct and Nov 1949

<sup>2</sup> The number of unemployed and unabsorbed immigrants in transit camps are reported to have numbered 90,000 in October 1949, and the camp population was expected to reach 110,000 by December (*The Times*, weekly edition, 26 Oct 1949) *The Israel Economist*, Dec. 1949, estimates that there were currently 25,000 potential workers idle in camps

<sup>3</sup> Cf *The Oriental Economist*, Vol. XVI, No 354, 1 Oct. 1949, p 953

<sup>4</sup> SUPREME COMMANDER ALLIED POWERS *Japanese Economic Statistics* (Tokyo), Bulletin No. 40, Dec 1949, section 1

<sup>5</sup> *Idem*, monthly bulletins, and PRIME MINISTER'S OFFICE, STATISTICS BUREAU. *Monthly Report on the Labour Force* (Tokyo).

labour force and numbers in work, but are now published separately in the *Monthly Report on the Labour Force*. Commenting on the "unexpectedly low and surprisingly stable" numbers of persons wholly unemployed, as revealed by the survey, the authorities point out that they exclude persons who are "with a job but not at work", whose numbers vary considerably in seasonal industries. Attention is drawn also to "the characteristic reluctance among those without steady employment to be completely idle when a wide variety of small family-sized enterprises, to be found in almost any neighbourhood in Japan, provide opportunities for marginal employment of some kind, if only for a brief period"<sup>1</sup>

The statistics given below are, therefore, subject to reservations in the light of these facts. From an average of 370,000 in the fourth quarter of 1947, recorded unemployment fell to 160,000 in the third quarter of 1948. Over the first eight months of 1949 the average was just under 400,000. Unemployment among men began to rise from September 1948 and among women from January 1949. The movements appeared to be connected with a downward trend in employment in manufacturing which continued until mid-1949. Some industries were experiencing difficulties in mid-1949, but expansion of export industries was expected to result in considerable over-all improvement.

*Pakistan* Partition of India resulted in the movement of some five and a half million persons from the new State of Pakistan to India and a movement of some seven million persons into Pakistan. In addition to the difficult problems of resettlement and rehabilitation involved, Pakistan had to overcome extensive economic dislocation. At one time there were nearly one million refugees in camps in West Punjab. In September 1948 there were 425,000, most of whom have since been transferred to cities and rural areas. The population of Karachi has risen from 300,000 to nearly 1,200,000.

Total unplaced applicants on the registers of employment exchanges, which so far exist only in urban areas, numbered 89,303 in January 1950 compared with 61,869 a year earlier. Although the numbers of unplaced applicants showed little variation, official reports state that unemployment was growing worse during the first half of 1949.<sup>2</sup> Acute unemployment also exists in the villages.

The exchange of population, fundamentally, has only accentuated old forms and causes of unemployment. "The only basic solution would be to make a concerted drive for the industrialisation of the country."<sup>3</sup>

Under the impact of increased defence requirements and shortage of imports, the cottage industries experienced great activity during the war. Now business is slack and many hand-loom weavers are becoming unemployed. "Other branches of cottage industry are also facing crisis owing to the paucity of tools and implements, lack of sufficient capital and absence of organisation among the local and refugee handicraftsmen . . . Our villagers remain unemployed for nearly six months in the year . . . there is acute underemployment, and veiled unemployment prevails among cultivators."<sup>4</sup>

<sup>1</sup> *Japanese Economic Statistics*, Bulletin No 33, May 1949.

<sup>2</sup> *Pakistan Employment Service Review*, Independence Number, Aug. 1949, p. 45.

<sup>3</sup> *Ibid.*, p. 46.

<sup>4</sup> *Pakistan Employment Service Review*, Aug. 1949, p. 53.

*Philippines* The labour force in the Philippines is estimated to have grown from 6,108,000 in 1939 to 7,347,000 in 1948, *i.e.*, by 20 per cent.<sup>1</sup> Compared with 1939 the level of employment had not increased, and there were approximately 1,229,000 persons unemployed at the end of 1948. Although a decrease in unemployment of some 260,000 had occurred since 1947, the situation remained acute. In the provinces, mining employed only one third as many persons as before the war, and in Manila a number of light manufacturing industries were operating below pre-war levels. Closure of United States military establishments and disbandment of certain Philippine forces created further difficulties, but the over-all improvement during the year in the employment situation had resulted from the general rehabilitation of agriculture, commerce and industry and an active programme of housing and public works.<sup>2</sup>

## Europe

*Austria* suffered severe disorganisation at the conclusion of the first world war in 1918. During the next 20 years there was considerable economic progress, but unemployment remained a serious problem until after the integration with the German economy. Co-ordination into the pre-war German pattern, with its emphasis on war potential, reduced unemployment in Austria to low levels and resulted in expansion of strategic industries, while the development of agriculture was arrested.

By the end of the second world war in 1945, Austria had suffered widespread war damage, had lost all her foreign assets and was experiencing political and economic instability. Nevertheless, the number of registered applicants for work declined until, at the end of 1946, it was about the same as in 1939. The lowest post-war level—39,759—was reached in September 1947, after which there was a relatively stable period until December 1948. The average proportion of unemployment, obtained by relating applicants for work to total wage and salary earners<sup>3</sup>, was a little under 2 per cent. in 1947 and a little over 2 per cent. in 1948.

The slight rise in unemployment in the second half of 1948 occurred wholly among females and may have been due to entries into the labour force. At this time workers' standards of living were under increasing pressure from rising prices.

Unemployment increased suddenly in December 1948 and in January 1949, applicants for work reaching a peak level in February of 138,652 (129,700 of whom were unemployed)—nearly three times the level of a year earlier. Improvement was rapid, unemployment at mid-1949 being about 3½ per cent. At this time approximately 200,000 displaced persons and refugees were employed in Austria.<sup>4</sup>

The trend in numbers of applicants for work (which include some persons seeking only a change of job) and of vacancies registered at employment offices was as follows

<sup>1</sup> Official reply to the I.L.O. enquiry into manpower surpluses and deficits, Oct. 1949.

<sup>2</sup> *Journal of Philippine Statistics* (monthly), Vol. IV, Nos. 1-6, Jan.-June 1949.

<sup>3</sup> Based on statistics published in *Civil Affairs, Austria* (report of the United States High Commissioner).

<sup>4</sup> Official reply to the I.L.O. enquiry into manpower surpluses and deficits, Mar. 1949.

	1948	1949				
	Dec	Feb	May	July	Sept	Dec
	(thousands)					
Applicants for work	93.7	138.7	90.8	76.2	72.3	139.6
Vacancies registered (end of month)	22.5	36.6	42.2	38.9	37.6	17.8

The number of applicants for work in February 1950 was 196,424 compared with 138,652 a year earlier

*Belgium* Although Belgium experienced considerable unemployment in 1945, recovery was rapid. In mid-1946 unemployment was about 2.5 per cent. During the greater part of 1947 Belgium enjoyed a state of full employment. Labour exchanges found difficulty in filling vacancies.<sup>1</sup> Unemployment among insured workers averaged 3.5 per cent, almost half being accounted for by "partial" and "accidental" unemployment.<sup>2</sup>

In the early post-war period considerable Belgian manpower was employed in France, in the service of the Allies and in the reconstituted Belgian Army. In addition, many persons were engaged in black market activities and an abnormally large number as "middlemen" in commerce. The return of workers from Germany and the reduction in the numbers engaged in some of the above-mentioned activities created within Belgium a pool of labour which the economy was not able to absorb despite rising levels of output. Production continued to increase in 1949 while unemployment rose simultaneously.<sup>3</sup>

Unemployment began to increase towards the end of 1947 and by May 1948 the percentage of unemployment was 4.7—almost double that of May 1947.

The textile industry, which had been subject to serious unemployment before the war, experienced a considerable increase in unemployment before mid-1948, first in the form of *partial* unemployment. From June the numbers *fully* unemployed in this industry rose quickly. Diamond workers experienced severe unemployment in April and May (19.2 per cent) and after a brief recovery suffered a precipitous decline in employment. The metal industries, construction, transport, wood-working and other industries showed declines in July, and, with few exceptions, did not show any signs of recovery before a general rapid decline began in the last quarter of 1948. Seasonal unemployment reinforced the movement. The growth in female unemployment was striking.

In June 1948, the general level of unemployment was 5.2 per cent. (males 5.0 per cent and females 5.9 per cent.)

In June 1949, the general level of unemployment was 10.7 per cent. (males 10.0 per cent, females 13.1 per cent.) Industries with unemployment in excess of the average were agriculture (19.1), forestry, etc. (14.3), diamond working (65.6), wood, furniture (19.6), textiles

<sup>1</sup> *Revue du Travail*, Feb. 1949.

<sup>2</sup> Partial and accidental unemployment relate to days of unemployment experienced during the month owing to slack trade, casual work or temporary stoppages caused by weather conditions, breakdowns, etc.

<sup>3</sup> *Economisch-Statistische Berichten*, Vol 35, No 1705, Jan. 1950.

(13 0); clothing (21.0), skins, shoes, etc (19 5), transport (13 7), dockers (35 5), hotels and restaurants (14 6)

Partial and accidental unemployment was equivalent to 2 3 per cent full-time unemployment in June 1948 and 2 8 per cent in June 1949, after having reached a peak of 4 per cent in December 1948. In June 1949 it was equivalent to the following percentages of workers in complete idleness: diamond working, 19 1, textiles, 6 4, clothing, 8 5, skins, shoes, etc., 11 8, transport, 3 1, dock work, 35 5. The figures in the preceding paragraph include these amounts.

As in 1948, the normal seasonal decline in unemployment did not appear in the summer of 1949. The average daily numbers unemployed in August 1949 were 214,683 compared with 122,549 and 48,737 in the corresponding month in 1948 and 1947 respectively. Unemployment increased to 308,968 in January 1950, and then fell to 264,261 in February. An analysis of economic conditions in Belgium is given in chapter II of this report.

*Denmark* Prior to the outbreak of war, Denmark suffered from extremely severe unemployment. In 1945 average unemployment among members of trade union unemployment funds was 13.4 per cent. About half the total privately employed wage and salary earners are covered by the trade union returns. During 1946 and 1947 unemployment averaged 8 9 per cent, varying from 18-20 per cent in mid-winter to 2-3 per cent in mid-summer. In 1948 the rates followed the same general pattern, the annual average being 8 7 per cent. Throughout 1949 rates were slightly higher. In June 1949 the proportion unemployed was 4 7 per cent compared with 3 1 per cent in June 1948. In the winter season unemployment increased to 18 1 per cent (January 1950) compared with 15 0 per cent in January 1949.

*Finland* The numbers of applicants for work in Finland increased slightly in each of the years 1946, 1947 and 1948, but industrial production and economic conditions generally were reported as much better in 1948 than in the previous years. "The labour market was characterised by full employment, even a shortage of manpower in some departments"<sup>1</sup> The numbers of unemployed on exchange registers averaged 2,700 in the five months ending December 1945. Unemployment was slight until towards the end of 1948, when prices began to fall and difficulties were encountered in export trades. Unemployment increased to 51,441 in March 1949 but rapid improvement occurred in the second quarter. By July the number of unemployed on the registers had dropped to 940. However, their numbers increased thereafter, principally in the last quarter of the year, and reached 58,075 in December. A decline to 52,873 occurred in January 1950. Many of the unemployed are given temporary jobs on public works but remain on unemployment registers.

*France* Compared with other developed economies, France had comparatively low unemployment before the war. When the war ended in Europe the numbers of applicants for work registered at labour exchanges (50,000) were only about one eighth of immediate pre-war levels and although there followed a very slight increase, it was soon replaced by a declining trend throughout 1946 and most of 1947. Thereafter there was a gradual rise. In July 1949 applicants for work

<sup>1</sup> BANK OF FINLAND *Monthly Bulletin*, Jan -Feb. 1949

(including some persons seeking only change of job) totalled 122,082 compared with 71,198 a year earlier. Towards the end of the year unemployment increased more rapidly and applicants for work reached 153,545 in December. In January 1950 the number rose to 172,972. Persons on unemployment relief, however, numbered only 52,477.

The rise in unemployment during late 1948 affected primarily men of low skill and those attached to luxury and non-essential industries of distributive trades. Relaxation of certain controls which had entailed much administrative work led to reduced demand for clerical workers, whose numbers swelled to 30 per cent of registered applicants for work.

A continuous shortage of skilled workers has persisted—particularly in the key sectors of agriculture, coal mining, metallurgy and, in a certain measure, building.<sup>1</sup> Foreign workers have been recruited for permanent work in these industries and in domestic service as well as for seasonal work, mainly in agriculture. The numbers of foreign workers introduced and placed by the National Immigration Office during 1949 were 58,872 for permanent work and 20,047 for seasonal work. During the last quarter of 1949 the number of foreigners placed was small compared with preceding quarters, the demands by employers having greatly decreased.<sup>2</sup>

The higher level of unemployment in 1948-1949 is considered to reflect a return to more normal conditions in the labour market.<sup>3</sup> The index of employment in manufacturing (1938=100) was 113.3 in October 1949 compared with 110.0 in October 1948 and 105.0 in October 1947. Total employment in non-agricultural industries continued to rise slowly in 1949.<sup>4</sup>

Idle workers in France in 1949 represented an extremely small proportion of total manpower—in September 1949 the proportion of applicants for work, some of whom were seeking only a change of job, to total wage and salary earners was only about 1.3 per cent.

*Germany, French Zone.* The labour force in the French Zone of Germany continued to expand rapidly in 1948-1949 owing to repatriation of prisoners of war and refugees. The wage and salary earning group increased by nearly 10 per cent, far more proportionately than in the Bizone area. Four fifths of the additional workers were absorbed into employment. The unemployment rate in June 1949 was 3.3 per cent. During the three years 1946-1948 it had been still lower.

Considerable redistribution of labour took place during 1948-1949. Civilian employees of the occupation forces declined by 15,500 (42 per cent). Redistribution was exemplified by the rise in placements made by labour exchanges during the six months ending December 1948, while the number of persons unemployed was also rising.

As in the Bizone area, Lander in which manufacturing industry predominates did not experience increasing unemployment levels until the first quarter of 1949. On the other hand, employment in the less industrialised Lander of the French Zone increased considerably during

<sup>1</sup> *Revue française du Travail*, Dec. 1948.

<sup>2</sup> MINISTÈRE DU TRAVAIL ET DE LA SÉCURITÉ SOCIALE, DIVISION STATISTIQUE. *Mouvements de Main-d'Œuvre étrangère, Introductions et Rapatriements*, Dec. 1949 (roneoed).

<sup>3</sup> *Revue française du Travail*, Dec. 1948.

<sup>4</sup> MINISTÈRE DU TRAVAIL ET DE LA SÉCURITÉ SOCIALE, DIVISION STATISTIQUE. *Enquête sur l'Activité économique et les Conditions d'Emploi de la Main-d'Œuvre* (quarterly, roneoed), 1 Oct. 1949.

the first half of 1949—in contrast with experience in the Bizone area. This situation in the French Zone is partly explained by the existence, in the less industrialised States, of the textile industry, which greatly expanded after mid-1948.

Agricultural employment decreased substantially, but many vacancies in agriculture continued on the registers despite the existence of widespread, if not serious general unemployment. In some respects, the position was similar to that existing in the Bizone area: farm proprietors were unable to obtain the particular types of workers that they required.

Total employment in the French Zone continued to expand until November 1949, although unemployment also grew slowly at the same time. During July and August the increases in unemployment were in large part due to the entry into the employment market of women and of juveniles leaving school.<sup>1</sup> At the end of October 1949 registered unemployed in the Zone totalled 53,603, equal to 3.7 per cent. of wage and salary earners. However, a rapid increase in unemployment took place during the following three months. In January 1950 unemployment reached 107,299, or 7.1 per cent. Seasonal slackness, particularly in the building industry and agriculture accounted for a large part of the increase.<sup>2</sup> Industrialised areas, where unemployment had not been significant, also showed large increases in unemployment.

*Germany, Bizone.* The slow deterioration in the Bizone area of Germany in 1948-1949, following the sudden increase in unemployment in July 1948, was due in small measure to declining employment, but principally to the rapid growth in the labour force unaccompanied by any significant increase in the demand for labour.

Between March 1946 and June 1948 the labour force expanded by 3,732,000 while the numbers unemployed declined by 472,000 and occupied persons increased by 4,204,000. Unemployment rates dropped from 7.5 per cent. of wage and salary earners in 1946 to 5.0 per cent. in 1947 and 4.7 per cent. in 1948. From June 1948 to June 1949, however, the labour force expanded by 767,000 while the number of occupied persons decreased by 29,000. The effect was that unemployment increased by 796,000 in the year ending June 1949 to reach a rate of 9.3 per cent.

Coinciding with the sudden rise in unemployment in July 1948, the number of females applying for work had begun to rise again after having been practically stable since December 1946. The average increase of 30,000 per month between June 1948 and June 1949 included many married women seeking part-time work to supplement family earnings.<sup>3</sup> While some of the increase in the female labour force was absorbed into employment during the second half of 1948 and the first nine months of 1949, the inflow of additional female workers has, for the most part, swollen the ranks of the unemployed.

The increase in the male labour force in the year ending June 1949 (402,000) was much less than in 1947-1948 (720,000), but employment

<sup>1</sup> HAUT COMMISSARIAT DE LA RÉPUBLIQUE FRANÇAISE EN ALLEMAGNE *Le Marché du Travail en Zone française*, No. 11, Aug. 1949 (roneoed).

<sup>2</sup> HAUT COMMISSARIAT DE LA RÉPUBLIQUE FRANÇAISE EN ALLEMAGNE *Rapport sur l'Évolution du Problème du Chômage en Allemagne occidentale* (roneoed; monthly), Jan. 1950.

<sup>3</sup> UNITED STATES AND UNITED KINGDOM MILITARY GOVERNORS *Joint Report*, Mar. 1949.

**BIZONE AREA, GERMANY: LABOUR FORCE, NUMBERS EMPLOYED  
AND UNEMPLOYMENT RATES, BY SEX**

Year and month		Total labour force			Employed						Unemploy- ment rates (percentage of wage and salary earners)	
					Total	Self-employed and family helpers		Wage and salary earners				
		Males	Fe- males	Total		Males	Fe- males	Males	Fe males	Males	Fe- males	
Thousands										Per cent		
1939	May	11,331	6,110	17,441	16,870 <sup>1</sup>	2,554	2,754	8,234	3,334	—	—	
1946	June	9,638	5,583	15,190	14,408	2,103	2,280	6,981	2,934	6.5	9.1	
1947	June	11,109	6,159	17,268	16,638	2,554	2,574	8,108	3,402	5.2	5.1	
1948	June	11,829	6,120	17,949	17,507	2,720	2,573	8,778	3,430	3.6	3.1	
	Sept	11,973	6,241	18,214	17,446	2,715	2,553	8,728	3,450	5.7	0.4	
	Dec	12,071	6,333	18,404	17,661	2,728	2,559	8,808	3,500	5.7	5.5	
1949	Mar	12,135	6,406	18,541	17,409	2,752	2,574	8,539	3,544	9.0	7.5	
	June	12,231	6,486	18,717	17,479	2,770	2,590	8,567	3,552	9.4	8.8	
	Sept	12,302	6,585	18,887	17,626	2,800	2,617	8,623	3,586	8.8	9.6	
	Dec	—	—	—	—	—	—	8,521	3,622	16.1	10.4	

Source *Wirtschaft und Statistik*, Vol. I, No. 8 (3), Nov. 1949

<sup>1</sup> Includes professional soldiers (170,000), who are also included under wage earners, but excludes conscripts in the Forces and compulsory labour service (535,000)

<sup>\*</sup> Insignificant

of male wage and salary earners failed to expand—actually a decline of 211,000 occurred between June 1948 and June 1949, while the number of unemployed males rose by 563,000<sup>1</sup>. Further growth is expected in both male and female sections of the labour force as the proportions of the total population of each sex in the labour force are still low by pre-war standards.

Although the decline in total employment in 1948-1949 was relatively small, considerable changes occurred within various industrial groups. Also, the development of unemployment in the various Lander was irregular.<sup>2</sup>

The numbers of wage and salary earners employed in agriculture in the Bizone area had risen quickly after the war to a level approaching double pre-war, as refugees and displaced persons obtained work on the land and, what was perhaps more important to them, food and shelter. Agriculture could not support such numbers under normal conditions of trade, until the currency reform in June 1948, the trading methods in practice were mainly bartering and blackmarketing. The limited scope for trade with the Soviet-occupied Zone tended to reduce the long-term requirements for agricultural labour. A rapid decline was already in progress prior to June 1948 and unemployment quickly became serious in the Lander primarily devoted to farming.

The strong upward trend in unemployment spread by the second quarter of 1949 from the agricultural Lander to the more industrialised areas but had not affected them very severely by October. Unemployment had increased in the more industrialised areas, mainly on account of the absence of expansion in employment opportunities in the face

<sup>1</sup> *Wirtschaft und Statistik*, Vol. I, No. 6, Sept. 1949

<sup>2</sup> The analytical study of trends in the Bizone Area given in chapter II examined these developments in greater detail



of an increasing labour force. In the predominantly agricultural Lander where unemployment is much more severe, a large proportion of the increase in unemployment had been due to dismissals, *i.e.*, decreasing employment.

While the numbers of placements made monthly by labour exchanges in the Bizone area had declined relatively little by October 1949, unfilled vacancies remaining on exchange registers had declined to 107,200—a small fraction of the numbers seeking work—and the immediate outlook therefore was unfavourable. The total numbers in employment increased slightly in the quarter ending September 1949, but unemployment also continued to increase slowly as the expansion of the labour force exceeded the growth in employment.

The number of persons unemployed in October was 1,263,000, equal to 9.4 per cent of wage and salary earners, compared with 1,237,700 unemployed in June 1949. The first substantial increase in unemployment for some time (60,000) occurred in November. A rapid deterioration then set in. Unemployment increased by 160,000 in December, and by 308,000 in January 1950, to reach a total of 1,790,345 or 13.2 per cent. The more industrialised areas were among the worst affected. Nevertheless, in these areas unemployment rates were still in general less than half as much as in the chief agricultural Lander. Some half of the increase in unemployment in January occurred in agricultural and construction industries. In other industries, the level of activity declined principally in the first half of the month, which suggests that the chief cause was a general temporary decline in demand after the Christmas season.

The adoption of new currency units by the Soviet and Western Zones in June 1948 and of direct restrictions on trade resulted in increasing unemployment in the Western Zone of *Berlin*. In July 1949 203,000 persons were wholly unemployed, equal to 21 per cent of the total wage and salary earners, and, in addition, 65,000 were on short-time.<sup>1</sup> In December 1949, 278,713 were wholly unemployed and a further increase in January was reported.

The reopening of the large Berlin West Power Station on 1 December 1949 and the provision to Berlin of additional aid, both economic and financial, were expected, other things remaining equal, to improve the situation considerably in 1950.<sup>2</sup>

*Greece* In Greece, as in Italy, there is chronic structural unemployment and underemployment. Analysis of a sample of the population taken in the summer of 1946 by a group of United States statisticians revealed that some 197,000 persons were out of work. This was equivalent to approximately 25 per cent of wage and salary earners.<sup>3</sup> The agricultural labour force is far in excess of what can be fully utilised—it is estimated that the present level of production in agriculture could be achieved with 55 per cent of the available workers employed full-time. In the towns, early in 1949, 20 per cent of wage earners were unemployed.<sup>4</sup> This situation is not new—before the war the industrial labour force was only 80 per cent effectively employed.

<sup>1</sup> *Berliner Statistik*, Vol. III, Nos. 7-8, July-Aug. 1949.

<sup>2</sup> *Monthly Report of the Control Commission for Germany (British Element)*, Vol. 4, No. 11, Nov. 1949.

<sup>3</sup> Cf. I.L.O. Studies and Reports, New Series, No. 12 *Labour Problems in Greece* (Geneva, 1949).

<sup>4</sup> Taken from a report of the I.L.O. correspondent at Athens (reviewed in *Industry and Labour*, Vol. I, No. 7, pp. 277-278).

Plans for industrialisation, as a means of utilising available manpower and raising living standards, must be regarded as a long-term project. There is a serious shortage of skilled workers, so that one of the conditions precedent is the success of training schemes which the Government is undertaking.

*Ireland.* Ireland was subject to severe unemployment before the war. At the war's end, the rate of unemployment was about 9.5 per cent. During 1946, average unemployment was the same as in the previous year and was only slightly lower in 1947 and 1948. In September 1949, the post-war minimum of 7.2 per cent, previously recorded in September 1947, was regained. In January 1950, the figure reached 9.4 per cent.

A large part of this unemployment appears to be structural in character and capable of being eliminated only by industrial development, thus development has long been hampered by the low rate of capital accumulation and investment. In 1936 approximately half the economically active population was attached to the agricultural and fishing industries—about the same proportion as in Italy. Oversea migration has for many years past absorbed large numbers of workers from both these countries. Economic conditions in Britain and elsewhere therefore have considerable effect on the level of unemployment in Ireland.

*Italy.* Italy, subject to persistent structural unemployment, has traditionally found some relief in emigration. However, even in 1937 and 1938, when war preparations were opening up new employment opportunities, an average of nearly 900,000 unemployed was recorded.

In December 1945 and the first quarter of 1946, the lowest post-war levels of unemployment were recorded (average 1,300,000 applicants for work) but the generally unsettled conditions may have resulted in less complete registration than in subsequent months. During most of the post-war period registered applicants have ranged from one and a half to two million.

From February 1946 (1,198,000) there followed a gradual rise to a temporary peak of 2,279,000 applicants in February 1947—a period during which unemployment in Germany decreased slightly. During the second half of 1947 there was considerable improvement in Italy, but steps taken to control inflationary tendencies led to a temporary recession and the numbers of applicants for work began to increase. A post-war peak of 2,422,000 applicants was reached in May 1948. From that time, except for a temporary increase in unemployment during the last months of 1948 and in January 1949, there was a persistent, slow improvement until September 1949.

Registered applicants for work increased slightly in October 1949, to reach 1,741,019. Of these, 159,112 were housewives seeking their first jobs, while 68,530 men and 11,050 women were pensioners or persons already in work. The remainder (men 1,096,982; women 405,345; total 1,502,327) were officially classed as unemployed.

Assuming an economically active population of 20,100,000<sup>1</sup> and allowing for somewhat higher proportions of non-agricultural workers and of wage earners than before the war, the following are approximate indicators of the severity of registered unemployment<sup>2</sup> at mid-1949.

<sup>1</sup> *Bollettino d'Informazione Sindicali*, 30 June 1949.

<sup>2</sup> Some writers have suggested that these figures of registrations reflect inadequately the extent of unemployment. See, for example, "Unemploy-

(i) total labour force, 8 per cent ; (ii) non-agricultural labour force, 13-14 per cent , (iii) total wage and salary earners, 14-15 per cent , (iv) non-agricultural wage and salary earners, 18-20 per cent

The Italian economy is handicapped by the poverty of its natural resources. This means that industrialisation can proceed only slowly and, as was the case prior to the war, the progress of industrialisation since 1939 has not been sufficient to absorb the increase in population of working age. An analysis of the present situation and the immediate outlook for Italy is given in chapter II.

*Netherlands* A vast programme of reconstruction faced the Netherlands at the conclusion of the war. An austerity living standard was adopted permitting a high degree of capital formation, and large funds have been devoted to reconstruction and structural adjustment of the economy. The inflationary effects of heavy capital investment have been kept under control. As in Britain, a continuing high level of employment has resulted.

The number of persons unemployed declined from 125,800 in July 1945 to 27,263 in July 1948. In July 1949, the corresponding figure was 45,816 or less than 2 per cent of wage and salary earners. Some unemployed persons are employed on relief works but are included in the above figures. Relief workers numbered 21,000 in July 1945 and 12,600 in July 1949. A category of idle persons not included in the unemployment figures are those on out-of-work pay from their employers, who totalled 115,400 in July 1945 but declined to an average of 4,300 in 1946 and numbered 600 in July 1949.

The recovery in the Netherlands since the end of the war has been remarkable and labour shortages have occurred in some sectors of the economy<sup>1</sup>. At the same time, the Netherlands Government has indicated that there existed at 1 September 1949 a surplus of about 37,000 agricultural workers and 15,000 other workers, mainly manual labourers, available for emigration<sup>2</sup>.

There is a shortage of female labour. Total vacancies for women at the end of September 1949 numbered 17,589 and applicants for work numbered 10,775. Females completely unemployed numbered 6,019. Male vacancies numbered 25,123 compared with 49,657 applicants for work. There were 32,236 completely unemployed and 8,800 engaged on public relief works.

The continuing high level of new vacancies notified to employment exchanges during the third quarter of 1949 suggests that the employment situation in the Netherlands remained satisfactory. A seasonal rise in unemployment occurred during the fourth quarter, the December figure being 87,862 compared with 69,903 a year earlier.

*Norway* In Norway, unemployment was low at the conclusion of the war but it quickly fell to even lower levels. Norway appeared to be scarcely affected when most countries experienced some decline of their employment levels late in 1948. The amplitude of the usual seasonal

ment in Italy", in *Review of Economic Conditions in Italy* (Banco di Roma), Vol III, No 2, Mar 1949. There is also considerable underemployment (see pp 27-32 above).

<sup>1</sup> See "Over het gebrek aan werkkrachten in de industrie", in *Maandschrift* (issued by the Central Bureau of Statistics, Utrecht), Aug 1949, p 913.

<sup>2</sup> Official reply to the I.L.O. enquiry into manpower surpluses and deficits, Oct 1949.

movement was smaller in 1948-1949 than in previous years. Only 0.3 per cent of unemployment was recorded in July of the years 1947, 1948 and 1949. In January 1950, the unemployment rate was 2.2 per cent, compared with 2.0 per cent one year earlier.

*Portugal* In Portugal, the number of persons registered at employment exchanges was approximately 3,000 each month in the second half of 1945 and thereafter declined steadily to reach an almost constant level of 1,400 in the second half of 1948. During 1949 the average number registered was 1,600.

*Spain* Spain experienced heavy unemployment prior to the war. Approximately 500,000 unemployed were recorded in 1940. In the second half of 1945 the average was about 160,000. In 1946, numbers registered for work averaged about 30,000 higher than in 1945, but during the next year and a half there was steady improvement, the minimum post-war number of unemployed being recorded in July 1948 (104,115). A gradual increase followed, 154,925 persons being on the unemployment registers in July 1949 and 169,300 in November. In December 1949, the figure declined to 161,006.

*Sweden* Unemployment in Sweden at the close of the war was about half of the pre-war level. There was a considerable decrease in 1946 and a further drop in 1947 to an average of approximately 3 per cent of trade unionists unemployed. The increase in unemployment in the first half of 1949, compared with corresponding figures for 1948, was negligible. The percentage of unemployment among trade union members in October 1949 was 1.8. At the end of the year unemployment was at a minimum level and there was still a serious shortage of skilled labour in some branches of industry.<sup>1</sup>

*Switzerland* Industrial activity began to slacken in Switzerland in the fourth quarter of 1948 after three years during which unemployment was practically unknown except in certain activities at mid-winter. Persons wholly unemployed in June 1949 numbered 3,879, compared with 1,001 in 1948 and 491 in 1947. There was some deterioration in the employment situation during the second half of 1949 and, together with the winter season, this resulted in the number registered as wholly unemployed reaching 30,177 in January 1950. In March 1950 the number was 10,840, compared with 7,261 in February 1949.

Partial unemployment, *i.e.*, short-time work, is included in the official unemployment percentages. The rate of 1.7 per cent unemployment in September 1949 was made up of 0.9 per cent complete unemployment and 0.8 partial unemployment. The post-war peak of partial unemployment was 2.2 per cent in March 1949.

*United Kingdom* Unemployment in the United Kingdom has been remarkably stable since the war's end, averaging about 2 per cent. Before the war there was more or less chronic unemployment—about 10.5 per cent in the period 1937-1939.

Under tight manpower controls, unemployment during the war was reduced to about 1 per cent. From 1 per cent at the end of the war, unemployment grew slightly to 2 per cent in the fourth quarter of 1945 and was steady at 2.5 per cent throughout 1946. In 1947 and

<sup>1</sup> SVENSKA HANDELSBANKEN (Stockholm). *Index*, Dec. 1949.

1948 the rate fluctuated between 1.5 and 2 per cent and in July 1949 it was 1.3 per cent<sup>1</sup>. The rate in December 1949 was 1.7 per cent. There has been constant pressure on the manpower supply.

Employment policy in Britain, therefore, has been concerned with encouraging the movement of labour into essential industries, particularly those concerned with reconstruction and production for export. It is interesting to note that efforts have been made to encourage a flow of labour into what were once depressed industries, e.g., textiles and coal mining.

One of the remarkable features of unemployment experience in Britain in the war and post-war periods has been the virtual disappearance of unemployed persons in the "temporarily stopped" category. These persons represent, in effect, workers temporarily laid off from their jobs or on part-time work. Before the war, 1.5 to 2 per cent of workers were unemployed falling within this category.

Although unemployment in Britain at the end of 1949 was only 1.7 per cent, it would have been still lower if housing shortages had not impeded the transfer of workers from several regions where there were pockets of surplus workers to other areas where there were vacancies. Part of the unsatisfied demand for labour is being met by the recruitment of foreign workers.<sup>2</sup>

Some recession in employment in Britain was anticipated towards mid-1948. Retail stores found that stocks were piling up. Bankruptcies increased among small post-war businesses. Resistance was met in some export markets. Manufacturers of certain goods like radio sets and electrical household appliances were laying off workers, and in some cases closing down factories. This was generally expected to lead to considerable unemployment, but did not. What happened was a steady adjustment in which the labour surplus of contracting industries was smoothly absorbed into the expanding industries. The difficulties are obviously growing more serious as the post-war boom ends. So far, however, the general employment pattern has shown little change. Considerable changes between industries are expected in the next few years, and transitional or "change of job" unemployment will probably tend to rise. The employment outlook, however, is primarily dependent on trends in the export trade.<sup>3</sup>

## Oceania

*Australia* Since 1945 the percentage of trade unionists unemployed in Australia has varied between the very low limits of 1.4 per cent and 0.8 per cent, except when industrial disputes in certain industries have affected employment in other industries.

In common with experience in many other countries, the percentage of total population in the labour force in Australia reached a high level

<sup>1</sup> A change in the basis of the percentages was introduced in July 1948—the rate of unemployment has since been obtained by relating registered unemployed to the total number of employees insured under the National Insurance Acts.

<sup>2</sup> *The Economist*, Vol. V, No. 104, 8 Jan. 1949, *Ministry of Labour Gazette*, Vol. LVI, No. 8, Aug. 1948, and Vol. LVII, No. 2, Feb. 1949, *Monthly Report of the Control Commission for Germany (British Element)*, Vol. 4, No. 11, Nov. 1949.

<sup>3</sup> Cf. CARTER and TRESS "The Economics of 1950", in *London and Cambridge Economic Service*, Vol. XXVII, No. 4, Nov. 1949.

during the war and has remained at a high level—mainly on account of the greatly increased numbers of women applying for work. Nevertheless, a severe shortage of manpower continues and has been only slightly mitigated by a large inflow of migrants.

In October 1949 there were registered with the Commonwealth Employment Service 60,000 vacancies for males and 33,000 for females. An unknown number of vacancies are not notified to the Employment Service. In the same month only 873 persons were in receipt of unemployment benefit.

*New Zealand* Unemployment experience in New Zealand since 1945 has been very similar to that of Australia. Unemployment has been insignificant. Only 53 persons were registered as unemployed in November 1949 and 45 a year earlier. On 30 September 1949, 19,620 vacancies were registered with the National Employment Service.

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## APPENDIX III

### COMPARABILITY AND LIMITATIONS OF UNEMPLOYMENT STATISTICS

The sources and methods used by different countries in the compilation of their unemployment statistics differ in many respects; international comparisons of levels of unemployment are possible, therefore, in many instances, only with substantial reservations.

Most existing series of unemployment statistics are derived as a by-product of, or as a joint enterprise with, insurance or taxation systems, trade union administration or employment exchange operations. Though gradual progress is being made toward the objective of international standardisation, the definitions at present used and the scope of the statistics seldom conform entirely with the standards laid down by the Sixth International Conference of Labour Statisticians which was held under the auspices of the International Labour Organisation in 1947. The statisticians at that Conference recognised labour force sample surveys as sources of the first importance. The next most favoured were statistics derived from compulsory unemployment insurance records.

#### TYPES OF UNEMPLOYMENT STATISTICS <sup>1</sup>

Six main types of statistics may be distinguished

##### *I Labour Force Sample Surveys*

Although not as yet widespread, the sampling technique for estimating the number of the unemployed has proved in practice to be a satisfactory and reliable method. It may be considered to yield the best over-all figures on unemployment since, in particular, it covers groups of persons such as new workers seeking jobs but never previously employed, who are not included in insurance schemes. It is not affected by changes in legislation, administrative regulations and the like.

##### *II Compulsory Unemployment Insurance Statistics*

These, in general, have a broad industrial coverage and are reliable statistics. Their scope is laid down by the insurance legislation and administrative regulations. The percentage of unemployment is found by comparing the number of insured unemployed with the total number of insured persons. The comparability of the percentages from country to country is affected by differences in scope of the insurance

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<sup>1</sup> For a more detailed discussion, see I.L.O. Studies and Reports, New Series, No. 7, Part I. *Employment, Unemployment and Labour Force Statistics: A Study of Methods* (Geneva, 1948), pp. 78-100.

legislation as well as by differences in administrative regulations in force. The comparability of the percentages over a period of time within the same country is subject to reservations if important changes have taken place in the insurance legislation or in administrative regulations governing the registration of the unemployed.

### III. *Trade Union Unemployment Benefit Fund Statistics*

These series are affected by the conditions governing membership of the trade union as well as of the trade union unemployment benefit fund. They do not, therefore, necessarily represent all the unemployed in the industries or occupations covered by the trade unions; they reflect only unemployment among members of the funds. The percentages of trade union members unemployed may not be representative if the members of the union constitute a favoured group from the point of view of the incidence of unemployment. Fluctuations in numbers and percentages are influenced by the growth or contraction of unions and by the effect of economic prosperity or depression upon the extent of coverage of the funds. The scope of the figures depends on the stage of development of the trade union funds. Conditions governing the recording of unemployed workers and the payment of benefits to them vary widely. The statistics may thus be fairly satisfactory in some countries, and incomplete and unreliable in others.

### IV. *Trade Union Statistics*

These statistics are subject to most of the deficiencies of the trade union fund series and as, in the absence of a trade union fund, benefits are not usually paid to unemployed members, the statistics are frequently based simply on reports compiled by union secretaries. The value of the figures is determined largely by union rules and practices in regard to the reporting by members of their employment status. In some cases, therefore, the statistics may be reliable indicators of unemployment among trade union members, more particularly when expressed in the form of percentage rates, but in other cases the figures are not representative of unemployment among trade unionists generally. The degree of representativeness of trade union statistics is always difficult and sometimes impossible to ascertain. (See III above.)

### V. *Employment Exchange Statistics*

These series are based on the applications for employment registered at the exchanges and usually give the number pending at the end of the month. In some cases, applicants are divided into those unemployed and those seeking only a change of job. The value of these statistics varies widely. In a few cases, where the employment exchanges function in close connection with unemployment insurance, registration with the exchange being a condition precedent to obtaining unemployment benefits, these exchange statistics are comparable in reliability to insurance figures. Exchanges operating in connection with large unemployment relief schemes may provide reasonably satisfactory figures, but such schemes are frequently subject to important changes in scope. However, where registration with the exchange is entirely voluntary, and especially where the exchanges function only in the more populous regions of a country or are not widely patronised by employees seeking work or by employers seeking workers, the data are



incomplete and may be unreliable. The scope of the figures is determined partly by the manner in which the system of exchanges is organised and the advantages that registration brings, and partly by the extent to which workers are accustomed to register.

Applicants for work may include the sick, those on strike, those employed in relief work as well as a larger or smaller number of persons who, though employed, are seeking transfer to other work in order to better their conditions of employment. The file of applicants requires continual checking to eliminate those who no longer require jobs. On the other hand, not all the unemployed may register. In general, therefore, these figures cannot be considered as comparable from country to country, though their fluctuations within a country generally reflect changes in the prevalence of unemployment. In very few cases can satisfactory percentages of unemployment be calculated from these figures, since knowledge of the exact scope of the registrations is usually lacking.

## VI. *Estimates*

Estimates of the numbers unemployed, made usually by Government agencies although in some cases by private organisations, give figures for over-all unemployment in broad economic sectors of industry. Data used for the purpose of these estimates may include some of the series already discussed as well as data from the censuses of the economically active population. Such estimates may actually present a more comprehensive picture of unemployment and its fluctuations than the various statistical series described above, however, they are subject to a margin of error which varies from series to series according to the methods and data employed in their construction.

## COMPARABILITY AND LIMITATION

Unemployment series derived from the various sources outlined above are in many instances clearly not even approximately comparable. Consequently, care has been taken in this report to avoid emphasis on differences between countries in unemployment rates. Generally, however, where the differences are substantial, there are obviously contrasting degrees of unemployment. It is also possible in some instances, even on the basis of series recognised to be inadequate, to conclude with reasonable certainty whether unemployment is serious or quite small.

It is not possible to present, within the scope of the present report, a detailed explanation of the sources, methods and contents of the unemployment statistics published by the individual countries. Readers may refer to the *International Labour Review*, Vol XLIII, No 6, December 1948, for explanatory notes on the various national series of unemployment statistics then current which were being published by the Office. New series are included from time to time and supplementary notes are published concurrently.

In most countries only census data provide statistics covering all persons without work<sup>1</sup>. Current unemployment series which cover only part of the field are subject to varying degrees of error.

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<sup>1</sup> The scope of labour force sample surveys also extends to the whole population.

A series with an incomplete coverage may provide a fairly satisfactory indication of the *fluctuations* in unemployment over a short period of time, but may be somewhat less reliable over a long period.

Population movements or changes in social structure, administrative procedures, etc., are reflected in the absolute *numbers* recorded as unemployed, *rates*, calculated by relating numbers in a given group who are unemployed to the numbers of persons in the group and exposed to the risk of unemployment, are not so much affected by these factors.

In the presentation of estimates of unemployment, therefore, both numbers and percentage rates should be given, percentages of unemployment being recognised as the best measure of severity of unemployment.

However, for purposes of administrative action against unemployment, it is not sufficient to know simply the rate of unemployment and its fluctuations. Plans must be made on the basis of the numbers of persons affected. Thus, where countries are able to provide only partial measures of current unemployment, an attempt should be made to link the series with the results of complete censuses of the labour force taken at reasonable intervals.<sup>1</sup>

To deal adequately with unemployment problems it is necessary to know, in addition to the numbers involved, details of their principal characteristics—sex, age, geographical location, occupation, etc. The production of such details at regular short intervals may be costly. Nevertheless, any statistical service must be considered to be inadequate unless it can, as occasion demands, provide them.

For fuller information on the problems of unemployment statistics and on the international standards that have been established as the basis for a developed system of employment, unemployment and labour force statistics, reference may be made to the proceedings and resolutions of the Sixth International Conference of Labour Statisticians and to the survey of these statistics which was prepared for the information of that Conference.<sup>2</sup>

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<sup>1</sup> Resolution I, para. 17 (1), of the Sixth International Conference of Labour Statisticians reads as follows: "A population census should be taken at least every 10 years and a census covering the major branches of economic activity at least every five years in order to provide, among other things, adequate basic statistics of employment, unemployment and the labour force."

<sup>2</sup> See I.L.O. Studies and Reports, New Series, No. 7, Parts 1 and 4: *The Sixth International Conference of Labour Statisticians and Employment, Unemployment and Labour Force Statistics: A Study of Methods* (Geneva, 1948).

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